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# China Report

ECONOMIC AFFAIRS



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24 March 1986

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## NATIONAL POLICY AND ISSUES

### NEW DEVELOPMENTS IN ECONOMIC REFORM, CONTRACTS

Fuzhou FUJIAN LUNTAN [FUJIAN FORUM] in Chinese No 9, 1985 pp 48-49, 58

[Article by Liu Jingwei [0491 4842 4885]: "Restructuring of the Economic System and New Developments in Contracts"]

[Text] In the last few years, the party and state have established a series of correct guiding principles and policies and have taken a series of reform measures in the planning system, commodity circulation and enterprise autonomy which have promoted the rapid development of China's commodity economy. The development of the commodity economy will certainly bring new developments to contracts which form the legal manifestation of commodity exchange. Contracts have already become the most basic method to facilitate the participation of people in social and economic activities, and play a direct role in linking production, distribution and sales, and in satisfying the material and cultural needs of the people. This is not only reflected in the increasingly great scope for which contracts are now being used, but in the gradual growth of new contract forms that are developing through practice. The new contracts differ from the older ones, and have their own special characteristics. The following types of new contracts exist at the present:

#### 1. Transfer of Land Rights Contracts

This type of contract is an agreement between the contracting household and other peasant households to transfer the right to contract for land. It is the result of China's implementation of the contract system of responsibility in agriculture and the development of rural commodity circulation. No form of land transfer was permitted in the past in China. Not even collective economic organizations belonging to the collective economy could freely transfer land rights. After the implementation of the land contract system of responsibility, a situation in which everyone divided up the land and cultivated it came into being due to the fact that the basic method of land contracting was one based upon population. On the other hand, because of an uneven distribution of labor power and capital, or shifts to other trades (such as transportation, commerce, etc.), some rural households did not contract sufficient amount of land to cultivate, while other households did not have the wherewithal to farm their assigned land. Therefore, the spontaneous appearance of methods of land transfer to correct this imbalance was inevitable.

Such contract transfers sometimes involve the transfer of all a household's land, and sometimes part of it. Some transfers are made for payment, others are free. But no matter what the form, the basic characteristic of transfer contracts is that they are based on and limited by the original contract.

First, the purpose of a transfer contract revolves around the right to contract one's labor on the land, not ownership over the land. It is the collective that owns the land in China's rural collective economy. Peasant households do not have the right to possess land. Peasant households only have the right to contract for the use of the land based upon an agreement between the collective and the commune member. Therefore the only thing that can be transferred is the right to contract out the use of the land. Ownership of the contracted land still belongs to the collective. Second, both parties involved in a transfer contract are peasant households who may be members of the same or different collective economic organizations. However, only the contracting household has the power to contract the land. Third, from the point of view of rights and obligations, the great majority of transfer contracts stipulate that the subcontracting household has to exercise the obligations of the original contracting household toward the state and collective. Therefore transfer contracts not only stipulate the rights and obligations of both parties, but also the rights and obligations that exist between the subcontractor and the state and collective. The major obligation of the subcontractor is to fulfill the original contract, including his obligations toward the original contractor and the state and collective.

In compensated transfer contracts, the subcontractor also has the obligation to provide the original contractor parity grain rations or cash amounting to the difference between parity grain rations and negotiated-prices according to the stipulations of the contract, as compensation for the right to subcontract and for the original contractor's investment in the land. At the same time, he has in addition to the obligation to fulfill the terms of his contract, the right to farm the land independently. He has, after "handing enough over to the state and leaving enough over the collective," ownership rights over all legally gained economic returns. Fourth, as for the contract's time limits, the term of the transfer contract is restricted to the time allowed the original contractor. Fifth, in making the transfer contract, the approval of the collective economic organization must be attained in addition to going through the usual contracting procedures (requiring an agreement, a pledge and a promise) before the contract is considered viable.

## 2. Scientific and Technical Cooperation Contracts

Scientific and technical contracts are agreements between the involved parties concerning scientific research, trial manufacture, technology transfer, technical information services and other scientific and technical activities. They form a new type of contract that has developed along with the increase of marketable scientific products and the beginning of the technology market in China. Since the reform of the science and technology system, various cooperative activities such as research on commission, trial manufacture, technology transfer and the provision of technical information services have become increasingly numerous while scientific and technical cooperation contracts have become widely used.

This type of contract includes contracts for the commission of scientific research and trial manufacture, patent and patent-rights transfer contracts, and technical information service contracts. The results of the commissioned research and trial manufacture, the transferred patent rights and the technical services provided all share the characteristic of being the product of mental labor. Therefore, in terms of objectives, these contracts differ from the usual contract of commodity sale and labor or transport contract. In addition, the party that is to provide technical services, transfer technology and receive the test products resulting from scientific research, has the obligation to provide technical services, transfer the results of trial-manufacture (test-runs) of technical and scientific research and receive technical services or technology according to the terms of the contract. The party that commissions research or trial manufacture has the obligation to pay the fee (utilization fee or price). In patent rights transfer contracts, the receiving party also has the obligation to maintain secrecy concerning the transferred technology (including blueprints and other materials), and cannot reveal or transfer information to a third party. Violators of this stipulation have the responsibility to pay compensation (namely, a responsibility for having divulged secrets). This is different from the average contract for which there are no restrictions after implementation.

### 3. Personnel Training Contracts

The personnel training contract is an agreement between an employing unit and a school (research institute) which provides for the training of specialized personnel by the school (research institute) for the employing unit. In the past, China's institutions of higher education admitted students on a command plan, in which students were recruited and assigned work in a completely centralized fashion by the state; no contract was allowed between the employing unit and student recruitment unit. This did not meet the needs of China's economic development and frequently led to the assignment of graduates out of their field and a shortage of specialized personnel in employing units. Now direct contacts are permitted between the employing units and schools (research institutes) to contract for personnel training.

The characteristics of personnel training contracts are: (a) the provider is usually a school or research institute that also functions as a teaching unit; (b) the contract's objective is to cultivate specialized personnel in a certain specialty, which involves teaching, and therefore makes it different from the usual contract that provides for labor or transport; (c) the main obligations of the school or research institute are: to provide graduates for the receiving party, to provide the proper curriculum, guidance and supervision for its students, and to grant a diploma upon completion of studies. The school or research institute must provide room and board if required by the contract. The main obligation of the employing unit is to pay the required fees.

### 4. Travel Contracts

A travel contract is an agreement between a travel agency or other tourism unit and the tourist for the provision of travel services. Since the 3rd Plenum of the 11th CPC Central Committee, the scope of the rapid development of China's tourist industry has not only included dealing with a large increase of foreign



tourists, visiting overseas Chinese, and Hong Kong and Taiwan compatriots, but also an increasing number of Chinese tourists as the people's living standards improve. According to statistics, 200 million people were involved in tours of 1 day or more in 1984 (JINGJI RIBAO 1 Jan 85). This has led to the development of new contracts that deal with rights and responsibilities that exist between the traveler and the travel agency.

The purpose of developing the tourism business in China is to meet the increasing material and cultural needs of the people, to promote friendship between China and the various peoples of the world, to expand the patriotic united front and to promote the unification of the motherland. Its major manifestation is in the provision of excellent travel services to enable the traveler to enjoy himself, rest, increase his knowledge and make friends. Therefore, the objective of the travel contract is to provide travel services. Travel services are different from other forms of labor services in that they are comprehensive services that often include food, lodgings, travel and touring. For the foreign, Hong Kong, Macao, Taiwan or overseas Chinese tourist, the agency must also take care of obtaining and inspecting visas, making customs, entry, exit, and residence arrangements, and provide information concerning customs taxes, currency exchange and health inspection rules. Most important of all are the touring arrangements, which require the labor of a tour escort or guide. Therefore, travel contracts differ from other contracts that provide only "room and board," because they are comprehensive service contracts that are responsible chiefly for the provision of "touring." The travel agency or other unit has the obligation to provide excellent travel services according to the terms of the contract and to employ competent guides or escorts. The guide or escort has the obligation to organize the travel, touring, entertainment and shopping itinerary of the tourist according to his needs and wishes, and to do a good job of interpreting and guiding, including explaining the route of travel, local customs and scenic and historical sites.

The traveler has the obligation to remit the stipulated fee and provide the necessary cooperation during the tour in order to ensure a smooth trip.

The above are the four contract types which have been widely adopted since China's overall economic reform, and are still playing a role. New contract types will surely emerge with the continued deepening of the overall economic reform and the development of the commodity economy. We should energetically inquire into and study the new situations and problems that have appeared in the process of the reform to improve contract legislation, consolidate the achievements of the reform and promote the development of the commodity economy in China.

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CSO: 4006/344

## NATIONAL POLICY AND ISSUES

### ECONOMIC REFORM, THEORY OF OVERALL BALANCE RELATED

Beijing GUANGMING RIBAO in Chinese 28 Dec 85 p 3

[Article by Tian Jinghai [3944 3068 3189]: "Economic Reform and the Theory of Overall Balance"]

[Text] Over the 30-odd years since the founding of the PRC, and in recent years in particular, the theory of overall balance of the national economy has advanced in many aspects. But there are still many issues which have yet to be studied and explored. The most prominent of these issues, and the one in most urgent need of being solved, is how to adapt the theory of overall balance of the national economy to the new conditions resulting from economic reform.

#### Overall Balance and the Law of Value

There are two rather extreme viewpoints on this issue: 1) to transform plans which reflect overall balance of the national economy into special tools of the law of value, and limit planning to predicting market trends; 2) to use the law of value only in the context of proportionate distribution of social labor time, and transform the law of value into a law of proportionate social labor consumption. Both of these two viewpoints have established components, but neither of them conforms fully to the objective needs of a planned commodity economy. I think that, when planning and realizing overall balance of the national economy, it is necessary to rely on the basic laws of a socialist economy laws and the law of planned and proportionate development, but that they must not be separate from or antagonistic to the use of the law of value, nor can the law of value be used only in the context of proportionate social labor consumption. When using the law of value in the area of overall balance, attention should be paid to the following aspects: a lot of stress must be put on value balance, including the correct definition of value compensation and accumulation scope; under the circumstances of being able to achieve similar fixed goals in using various channels and producing various products, particular attention must be paid to practicing labor consumption economy; production must not be the be-all and end-all of overall balance, but market supply and demand contradictions and fluctuations must be considered fully,

the market feedback mechanism must be stressed, consumption structural changes must promote production structural changes, and production structure determination of consumption structure should not be emphasized unilaterally; all economic levers on which the law of value depends to develop its role must be used comprehensively in order to promptly and flexibly regulate economic motion; using the market mechanism media of signals and stimuli, the social division of labor should be made more rational. To sum up, under the conditions of a planned commodity economy a major issue facing us is how to consciously use the law of value to achieve good overall balance of the national economy.

#### Overall Balance and Microeconomic Policymaking

This issue has emerged in the past few years along with the expansion of enterprise autonomy. At present, since enterprise jurisdiction has been generally expanded, how to correctly understand and handle the relationship between overall balance and enterprise microeconomic policymaking is becoming an increasingly prominent issue. Protracted practice has shown us that lack of enterprise autonomy does not favor but hinders overall balance of the national economy. The reasons for this are as follows: overall balance strives principally to achieve a correspondence between resources and needs, and the lack of enterprise authority to plan such activities as production, supply and marketing according to their controlled resource and need conditions and fluctuations may affect their correspondence; the lack of planned policymaking authority and the inability to promptly solve their various production management problems may cause enterprises to lose their inherent mechanism and power to achieve good microeconomic balance, it may also affect the achievement of good overall balance. Since the Central Committee is not as deeply affected by as many conditions and problems as are enterprises, its practice of overall balance often stresses certain aspects at the expense of others and results in uncoordinated economic relations. Correct enterprise exercise of planned policymaking authority, and planning of overall balance of the national economy based on it, will not only not conflict with, but will contribute to macroeconomic control. Of course, there will still be contradictions between expanded enterprise planned policymaking authority and overall balance of the national economy. The first reason for this is that their positions are different, with enterprises being limited by a narrow field of activity and unable to see the overall situation very clearly. The second reason is that their material interests are different, with enterprises often representing the interests of their own units and being unable to see the interests of the whole. Thus, overall balance of the national economy cannot be relaxed or even renounced due to expanded enterprise planned policymaking authority. Therefore, how to finally better link overall balance to microeconomic policymaking is an extremely difficult issue. At present, the principal conceivable solutions are as follows: 1. In exercising their planned policymaking authority, enterprises must take submission to state planning and management as a prerequisite; 2. The State should make specific stipulations on the limits and standards of enterprise activity; 3. In guiding certain enterprises, the State should employ "economic parameters" (or economic levers) to depart from the inclination toward overall balance. More and better methods must still be explored.



## Value Balance and Material Balance

In a commodity economy, material product trends are an integration of product value fluctuation and use value fluctuation. Thus, overall balance of the national economy must include material balance and value balance. From the perspective of use value being the material transfer of value, value balance represents and reflects material balance. But in real life, the two are relatively independent. For instance, all such things as balance between total social supply and demand; total social product, national income, total resources and distribution; and accumulation and consumption proportions can only be converted into a single value form, and cannot be expressed in material form. Suitable relations between these high-level and comprehensive economic phenomena which are reflected in a value form can be called general overall balance. This is the most important and central part of overall balance of the national economy, and a major aspect which must be managed firmly and well. Some material form balance, and supply and demand balance between material variety and type in particular, can also use the value form and be expressed with currency as the yardstick. But material form balance is aimed principally at using the use value form, and is expressed with material as the yardstick. Suitable relations between these relatively low-level and single-product economic phenomena which are reflected in a material form can be called specific structural balance. This can be a component part of overall balance, but it is not as important as general overall balance. As long as general overall balance is achieved well, it can be a prerequisite for specific structural balance. Of course, realizing general overall balance is not the same as realizing specific structural balance. In fact, it is impossible to demand material balance of the whole national economy. This is due to the following: 1. There is a great material variety, which is hard to bring fully into line with overall balance; 2. Almost all material use value is multifunctional and highly replaceable, which also increases the complexity and difficulty of material form overall balance; 3. People's material choices vary, and it is very hard to adapt unified material form overall balance to this variety. Thus, overall macroeconomic material balance is not only difficult to achieve, but is also unnecessary.

## Planning Balance and Realizing Balance

Overall balance must master and control the overall situation and deal with issues from the perspective of the interrelation between all sectors of the national economy and all links of social reproduction. Thus, when formulating overall balance plans, the state should consider the overall situation as much as possible. Its range should not only be limited to state-centralized management, but must also include that of management authority delegated to lower levels; it should not only include directive planning, but should also include guidance planning, and must even generally give appropriate consideration to full market regulation. Although the state does not make plans for full market regulation, it is not totally unrelated to state plans.

Thus, does an expanded range of overall balance limit microeconomic deregulation and stimulation?

The key to the issue is the need to differentiate overall balance when formulating plans from what means are used to organize realization of overall balance. The former traditional idea was that as soon as a product or an economic activity was brought into line with overall balance of the national economy, it was necessary to use the directive target form and administrative means to compel enterprises to implement it. Thus, a contradictory situation arose. On one hand, when planning overall balance, its range did not include the whole society, and unified planning with due consideration for all concerned was inadequate. In this sense, it can be said that "unification" was inadequate. On the other hand, when organizing and realizing overall balance, enterprises were compelled to act accordingly, which was excessive unification. Therefore, this situation was caused by confusing the unity and comprehensiveness required to formulate and plan balance with the flexibility and diversity needed to organize and realize balance. Our advocacy of considering the overall situation as much as possible when formulating overall balance plans is mainly a general consideration to help leading organs take an overall view and retain the initiative. But it does not mean that everything should be overunified, that enterprises should not be given essential autonomy and planned policymaking authority, or that directive targets should be imposed uniformly. Therefore, an expanded range of overall balance and microeconomic deregulation and stimulation are indeed not mutually exclusive.

#### Strategic Balance and Tactical Balance

The paired concept of strategic balance and tactical balance was raised as long ago as the late 1950's. At that time, planning the major proportional relations between agriculture and light and heavy industry was called strategic balance, and planning such technical proportional relations as how much iron ore, coke and power were needed to refine a ton of steel was called tactical balance. Later, these were seldom used. But in my view, it is still very important to stress strategic balance. Moreover, its specific connotation will also change as times change. New conditions of constant economic and technological development have required us to understand that we cannot be limited to practicing temporary, static and closed tactical overall balance alone, but that we must also practice long-range, dynamic and open strategic overall balance. Dynamic balance is comprehensively reflected as temporal coordination and synchronization of all interrelated parts of the national economy. This requires that particular attention be paid to the effect of improved technical standards on all interrelated parts of the national economy. Along with the vigorous rise of the new technological revolution, mankind will enter an "information society," the "goods economy" will be transformed into an "information economy" and, along with this, tertiary industries will develop at a faster rate than primary and secondary ones. Under these conditions, attention must be paid to balance between primary, secondary and tertiary industries. Moreover, faced with the prospect of increasingly extensive and frequent international economic and technical exchange and commercial intercourse, basing ourselves on domestic balance alone has become very inadequate. Some products, labor and technology which China does not need, or does not need so much of, can be exported in greater amounts and break into international markets. Some products and technology which China lacks can be imported

from abroad in somewhat greater amounts. Certain enterprises which are in urgent need of development but lack funds can also use foreign funds. Under these conditions, we cannot be confined to closed, domestic overall balance, but must fully consider the development of and changes in foreign relations and carry out open overall balance. Only in this way can China's economy and technology develop in coordination and our national economic structure become more rational and modern.

12267

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## ECONOMIC MANAGEMENT

### YUAN BAOHUA ON MODERNIZATION OF ENTERPRISE MANAGEMENT

Beijing JIANZHU JINGJI [ECONOMICS OF CONSTRUCTION] in Chinese No 12, 18 Dec 85  
pp 2-3

[Article by Xiao Zhai [2556 5049]: "Yuan Baohua on Enterprise Modernization"]

[Text] At the third All-China Symposium on Management Modernization, Yuan Baohua [5913 1405 5478], vice minister of the State Economic Commission and chairman of the China Enterprise Management Association, pointed out: The promotion of the modernization of enterprise management is an important task in 1985. We are determined to greatly advance this undertaking this year, and to raise enterprise quality and economic results to new, much higher levels. He discussed four questions:

1. The modernization of our enterprise management must have Chinese characteristics. He said:

In all affairs we can find factors of similarity and factors of individual diversity, and so it is also with management. The management of socialist enterprises, the management of capitalist enterprises, and even the management of socialist state enterprises all have similarities as well as individual diversities. When we speak of Chinese characteristics, we necessarily refer to something of an "individual character" that is different from the great mass. What, then, are the special characteristics of the Chinese modernization of enterprise management? From the opinions presented by you, my comrades, at the symposium, we can tentatively conclude the following:

(1) Under the conditions of the public ownership of the means of production as our principal system and the coexistence of a variety of economic forms, our business operations are of flexible and varied forms.

(2) Business management is being carried out according to the principle of a planned commodity economy. The enterprises have to obey the directives of the state plan, but on the other hand have to have self-determination in their business operations, guided by the needs of the market.

(3) Centralized direction is integrated with democratic management. There has to be leadership authority as well as the assurance for all staff and workers that their status as masters of their own affairs will be upheld. It means implementation of a three-in-one combination, namely of leading cadres, technical personnel and workers.

(4) Effecting an integration of the interests of three parties, namely of the state, of the enterprise, and of the individual. This means to guarantee, on the premise of continuously increasing economic results in the enterprises, the rational distribution and continuous increase of state revenue, of enterprise funds, and of the income of the individual staff and workers.

(5) Firm persistence in ideological-political work in combination with the observance of the principle of distribution according to work, and with fullest stimulation of the enthusiasm of staff and workers. We must on the one hand create a work force of staff and workers who are imbued with ideals, with high morality, who have a good general education and a strong sense of discipline, and we must on the other hand accord with the principle of material benefits and guarantee a continuous improvement in the livelihood of staff and workers.

(6) An economic responsibility system, characterized by the linkage of responsibility, authority, and benefits, must also be one of the specialties of the Chinese enterprise management system.

2. The modernization of enterprise management is by nature a reform. Yuan Baohua emphatically pointed out that instituting the modernization of enterprise management means effecting reforms in all such areas as the ideology, organization, system, methods, and means of management. Modernization of enterprise management must therefore be considered an important component--indeed an important integral part--of the overall reform of the entire economic system.

The demand for an accelerated modernization of our enterprise management has been put forward precisely to meet the demand for a more thorough pursuit of the reform of our economic system, to meet the demand for opening up to the outside world and opening up world markets, and to meet the demands arising from the challenges of the new technological revolution. It was also put forward to meet the demand for a stronger vitality in our enterprises. Its fundamental objective is, therefore, to raise the quality of our enterprises, raise their economic results, and promote the development of the productive forces. The objectives in the modernization of enterprise management are therefore identical with the objectives of the reform.

3. Crucial for the success or failure in our modernization of enterprise management is the question of qualified personnel.

Modern enterprise management is built on the foundation of socialized large-scale production and rapidly progressing science and technology. If we do not have a sufficient number of qualified personnel, well versed in science and technology, and of managerial capabilities, it will be impossible to realize any modernization in our enterprise management. Our ability to nurture, discover, rally, and use qualified personnel will be the crucial factor that will determine whether our modernization of enterprise management will succeed or fail.



In the last few years, we have achieved large successes in the training of staff and workers, but still cannot by far satisfy the demands of our growing production and of our requirements in business management. On the basis of our total experiences, we must give close attention to the formulation of an effective and feasible training plan. We must be willing to expend a certain amount of capital and adopt effective measures to initiate a new overall situation in this area. Through a variety of channels, on several different levels, and by several different methods of instruction, we must create, as quickly as possible, in reliance on the big cities and of differing scope, a system of instruction for our staff and workers. We must also do a good job of importing intellectual strength and of sending personnel overseas for training. We must energetically strive to create, within not too long a period of time, a mammoth force of socialist economic management cadres, proficient in all departments and in a broad formation without gaps.

#### 4. Accelerating developments in the modernization of enterprise management.

Management is an important resource, and the full development and use of this resource can mean achieving great results at a comparatively small price. For a long time past, people were insufficiently aware of the importance of management, a problem that up to this day has not yet been completely resolved. Practice has proven, that without corresponding progress in management, even the best of technologies cannot become fully effective.

In the last few years, much work has been done everywhere toward the modernization of enterprise management, and initial successes have indeed been achieved. However, generally speaking, we are presently still in the beginning stage, and with regard to certain localities and enterprises, we are even still at the rudimentary stage; developments have been very uneven. All our economic commissions and enterprise associations at all levels should consider the promotion of modernization in enterprise management as an important task, which must be conscientiously grasped firmly and effectively, with the support of the party committees and the leadership in the governments at all levels.

(1) We must conscientiously sum up experiences and effectively set up models and examples. Summing up experiences must not be merely a study of every case as it stands; we must be guided by theory and truly gain certain advances. We must formulate our plans in accordance with the different conditions in the various enterprises, and must not act in arbitrary uniformity. We must start out from the realities and in our action strictly concentrate on the objective of raising efficiency and raising economic results. We must not engage in formalism, adopt fanciful airs, or pay lip service, but must rather do solid down-to-earth work in effective experiments, let models be our guides, use the experiences of selected units to promote work in the entire area, and let the advanced units spur on those lagging behind.

(2) We must become organized and cooperate in a concerted effort. Management is a science, and it is also an art. Modern enterprise management is a new territory, involving even many more branches of learning. Our knowledge in this respect is still far from adequate. We are determined to strengthen the cooperative efforts of all parties concerned, the enterprises being the main

subjects in these efforts, determined to organize the strength of various different quarters, to enlist the cooperation of all those activists and comrades devoted to this line of work, who are campaigning for the modernization of enterprise management, who are working hard and doing solid work. We are determined to break down the barriers between trades and industries, expand our working force, nurture new rising forces, exchange experiences, learn from others' strong points to offset own weaknesses and to exert joint efforts, jointly probe and explore, jointly pave the way for further progress, all such efforts to be directed toward the objective of modernizing enterprise management.

(3) We must increase propaganda and arouse attention. The importance and urgency of promoting the modernization of our enterprise management is currently still not yet sufficiently understood by the people. We must increase propaganda and with the support of the press and the publishing industry do a good job in our propaganda and educational work, in order to broadly mobilize the strength of our society to promote the development of this type of work.

(4) The economic committees at all levels must cooperate with the departments in charge of planning, of financial affairs, of labor matters, etc., to give substantial support and assistance to our enterprises in their technological reforms, in the training of personnel, the importation of talents, and in management consultation, as we must also do a good job in guidance and service work, to benefit an even more effective promotion of the modernization of our enterprise management.

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ECONOMIC MANAGEMENT

HUAI HE BASIN ECONOMY OF TODAY EXAMINED

Beijing LIAOWANG [OUTLOOK] in Chinese No 42, 21 Oct 85 pp 9-11

[Article by Tian Xuexiang [3944 1331 4382], Shen Zurun [3088 4371 3387] and Guo Junzheng [6753 0689 2973]: "An Overview of Today's Huai He Basin Economy"]

[Text] Editor's note: China's economy can be geographically divided into three major regions--east, central and west. The correct disposition of the relationships among the three regions and the full development of their individual strengths and mutual horizontal economic relations to create a rational arrangement of the national economy are important strategic questions during the period of the Seventh 5-Year Plan.

The Huai He basin is typical of the central region. The purpose of this article is to provide material and opinions for reference use in the inquiry into and analysis of the region's economic development. [End of editor's note]

Make the Valley Thrive

This summer these reporters traveled across mountains and rivers from the Huai He's source in the Tongbo Valley to the river itself, covering a distance of over 10,000 li in 3 months, interviewing more than 500 people from all walks of life in order to answer this question: How can the economy of the fertile yet poor Huai He basin be stimulated to enable it to become the bridge linking east and west?

The Huai He basin runs through 182 counties and cities in the provinces of Henan, Anhui, Jiangsu and Shandong. Its total area is 270,000 sq km, of which 200,000 mu are arable, and has a population of 130 million people. It is second in the nation only to the Chang Jiang basin in terms of population and arable land. This area is one of China's major producers of grain, cotton and coal.

Except for a few industries in cities such as Xuzhou, Yangzhou, Fengfu, Huainan and Jining, there is virtually no real industry in the region. In 1983, the region's agricultural and industrial gross output value was 83.5 billion yuan, with an average of 642 yuan per person, which is only a little



more than half the national output value per capita. The gross value of industrial output is only 39.5 billion yuan, for an average of 300 yuan per capita, whereas the per capital average output value in the Suzhou, Wuxi, and Changzhou areas in southern Jiangsu was 1,600 yuan, or 5 times as large. The figures for Beijing, Tianjin and Tangshan in the north were also several times greater than those for the Huai He basin.

The average income for the region last year was less than 300 yuan, compared to the national average of 357 yuan. The population of Shandong's Yimeng mountain region and of Henan was 1.7 million and 6.18 million, respectively, but the average per capita income did not reach 120 yuan. There are another approximately 10 million people across the region who are living in relative poverty. All 13 of Jiangsu Province's counties receiving financial subsidies are located in the region.

The many experts and scholars interviewed by the reporters believe that one of the main reasons for the poor showing of the Huai He basin despite its abundance of natural resources is the undeveloped state of its processing industries. Most of the region's natural resources consist of unprocessed primary products which are transported to neighboring developed areas. Local enterprise profits for reprocessing are low and the region is lacking in financial strength, which retards the development of culture and education in areas producing raw materials. This in turn, has a negative effect on economic development, forming a vicious circle.

The people of the Huai He basin have a strong desire to change this situation. The prefectural and city leaders met by the reporters were full of confidence. The secretary of the Lianyungang City CPC Committee, Luo Dongsheng [5012 2767 3932] said that: Lianyungang is the place of origin of nationally known "Huai salt", but because it produces primarily unprocessed coarse-grained salt, economic returns are quite low. This year the city has decided to take the strengthening of its coarse salt processing ability as a major measure in its efforts to increase economic returns. Many experts believe that future prospects for regional development in the Huai He basin are great, and that as long as the Central Committee provides policies and points out the correct direction, much progress can be made in the enrichment of the valley.

Henan, Anhui, Jiangsu and Shandong Provinces have frequently called upon scientists, technicians, experts and scholars to discuss overall plans to stimulate the region's economy.

The climate, hydrology and type of earth throughout the region are basically the same, as are customs regarding farming and cultivation. It has its own water transportation network, a series of ports on Haizhou Bay facing the sea, and a structured network for commodity circulation. After studying the matter, some experts believe that economically and geographically, the region is completely capable of being developed as an independent economic area, and that agencies should be established locally to be responsible for the creation of development plans for the overall development of the entire region and its economy.

Considering the region's natural resources, economic base and economic returns, many scientists and technicians believe that five key industries in the area must be developed first--energy, food processing, textiles, leather products, construction materials and tourism.

There are abundant coal resources in the Huai He basin with great prospects for future development. In the southern part of the region the reporters visited the 100-year-old Xieyi Mine. Mine Director Liu Mingshan [0491 2494 0810] told us that in the past the mine was considered as having been totally exhausted, but after the adoption of the policy in which "large mines lead small mines so that state and collectively-run mines can grow together," coal production doubled in 3 or 4 years. Major coal mining bases have been established now in the region at Pingdingshan, Huainan. Huaibei, Xuzhou, Chengzhou and Zaozhuang. In addition, work to construct a group of large- and extra-large-scale mines has been intensified. The mining area experts we interviewed expressed the belief that if the pace of construction and exploitation of mines is accelerated, more than 150 million tons of coal will be produced here by the end of this century.

With coal there is electricity. Many large-scale "kengkou" [mine-mouth] electric power stations could be built here. We visited the Pingyu Electric Power Plant in Huainan now under construction. The plant has the largest capacity single generator in China. Four generating units will be installed here, each with the capacity to produce 600,000 kW of electrical energy. According to the experts, the total capacity for the mine-mouth electrical power stations already built or in the process of being built in the region amounts to 5 million kW. By the end of this century, this figure will increase to 10 million, transforming the region into central China's largest energy-producing center.

With coal and electricity, coal and chemical industries can be developed in a big way. The establishment of the chemical industry will promote the growth of industrial accumulation funds for the entire region. The large volume of chemical fertilizer that can be produced will promote the development of agriculture, forestry and animal husbandry.

Some experts hold that energy is the "first-step industry" of the Huai He basin economic zone, and that the food-processing, construction-materials, textile and tourism industries are the zone's "acceleration industries."

Resources for the region's agricultural byproducts, fur, and construction materials are extremely abundant, and many varieties are unique to the area. In Shandong's Heze Prefecture we saw a kind of "Quinggao" [black lamb]. Its entire body was black and covered with a natural lovely pattern which cannot be imitated by human hands. Its skin was light and soft, and its fur was naturally curly. Called "Chinese slippery skin" abroad, its skin has long had a high reputation on world markets. However current processing capacity is decentralized and the necessary relevant technologies have not yet been developed sufficiently to meet export needs. Similar situations exist for many products in the food-processing, leather-working, and construction-materials industries. Quite a few scientists and technicians told

us that the abundant natural resources of the Huai He basin are in dire need of processing. Gigantic economic returns could be swiftly gained if only we could improve scientific research, make the necessary overall arrangements and provide appropriate support.

The region also has wonderfully unique natural conditions for the development of the tourist industry. During our travel we saw countless natural and manmade scenic wonders. Yangzhou, Qufu and ... You are all famous historical cities. The Gaoshan Shaolin Monastery, Huaguo Mountain in Lianyungang, and Jigongshan in Xinyang also contain sites of great natural beauty; the twelve nature preserves in places such as the Jiangdu Water Power Center, the Guazhou Ford, and three locks at Gongze Lake, the Nanwan Reservoir and Huangcanggu in Xiao County are quite unforgettable. These areas once inhabited by such past historic personages as Zhu Gelinag, Wang Yizhi, Cao Cao and Hua Tuo require only a little work in order to be opened up for tourism but most of them have not yet been fully exploited.

The leadership of many cities and counties hold this same opinion: The "five major industries" have already developed to a preliminary stage in the Huai He basin. The main reason for its slow development is that local governments and departments overemphasize their own individual self-interests, and lack an overall view of things. Therefore to accelerate the development of the "Huai He Basin Economic Zone" requires centralized planning and comprehensive development in order to make the region thrive.

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## ECONOMIC MANAGEMENT

### REFORM WORK DURING TRANSITION PERIOD

HK Beijing JINGJI GUANLI in Chinese No 11, 5 Nov 85 pp 17-20

[Article by Li Shu [2621 2885]: "How To Perform Reform Work Well During the Transition Period"--edited by Pan Shucheng [3382 6615 3397]]

[Text] This is the first year in the implementation of the "Decision of the CPC Central Committee on Reform of the Economic Structure." If it is said that rural reform has achieved enormous successes, then the reform of the economic structure focusing on cities has only made a start. Reform, as our country's overriding and formidable task, must overcome the triumph over the bondage of the old and ossified form of economic structure and customs and influences which have prevailed over the past several decades and we must explore many areas and various links. At the same time, the old structure, as a system, is still restricting and influencing on many sides the course of economic life and to a definite degree still plays the role of control and domination. In the economic structure, the new superceding the old is now in a crucial transition period. The experiences in the practice of reform of the economic structure in our country and in the reforms in many countries of the world have amply shown that the success or failure of reform is intimately related to our ability to deeply understand the special features of reform in the transition period and thereby establish a dialectical "reform outlook" to observe the times and weigh the direction of the various stages of reform, being firmly insistent in the reform but possessing a sufficient degree of flexibility and being both bold and adept in reform.

This being the case, what are the special features of the reform in the transition period between the new and old structures? In the light of these special features, what counter-measures should we take?

There can only be a general blueprint for the initial stage of the reform: concrete ideas should be perfected in the course of probing and creation.

The reform we are carrying out is a gigantic, unprecedented, undertaking and is in fact another revolution in our country. Due to reasons known to everybody, this reform has made a late start and we have not gone through sufficient study and preparation, but it has developed rather rapidly. This determines that the starting stage of the reform in the transition period can only be guided by roughly sketched general blueprints and there

cannot be any integrated theory or ready-made plan, measure or policy. Each and every step of the reform must break the old and create something new and we must explore and go forward. This is the basic feature of the reform in the entire transition period. It must be pointed out that the "decision" of the 3d Plenary Session of the 12th CPC Central Committee has advocated for us a general blueprint for the establishment of a new structure for a socialist planned commodity economy with Chinese characteristics. This is an amazing creation. What the concrete model of a socialist new economic structure of Chinese style is like still needs to be perfected as we explore. That is, on the one hand, it is necessary to strengthen theoretical research and exploration work on the reform, and, taking steadfast direction of reform, revise concrete targets and steps and hold tight to the rudder so as to press forward; on the other hand, it is necessary to explore as we proceed in practice so that the formation of each and every policy is backed by theory and principally based on its social practicality; the emergence of each important reform measure must strictly abide by the principle of "everything having gone through experimentation," of making trials first, then summing up the experiences, and finally determining the policy. Since we are exploring, naturally risks are involved. We must thoroughly understand and implement the guideline of "being steadfast but careful in the first battle," and bring about the integration of a probing and creative spirit with a cautious scientific attitude. We must have deep faith in the reform, because the prospects and development of the reform really give us cause for optimism; but at the same time we must be fully ready for any difficulties that may emerge. Regarding any reform, particularly one with a bearing on the current interests of the populace, our "anticipation" must not be too high and room must be left for maneuvers. The extensive masses of cadres and people must be taught to understand that reform cannot be easily accomplished, nor can it be coaxed in with money. We must set up an ideology of long-term struggle and must have the courage, together with the state, to accept and triumph over difficulties. Only by so doing is it possible not to become self-contented when things develop smoothly or become crestfallen when facing defeat but to be firm and unshakable in the reform, and open the way forward.

Reform being the procedure of a movement, we must take small transitional steps as measures to advance forward

During the transition period, the economic structure is a unity of contradictory struggles between the "new" and "old" structures. The new structure wishes to play its role while the old structure intends to restrain it from doing so. In this kind of contradictory struggle, in the end the old structure can only be gradually replaced by the new structure. Hence reform measures in the process must manifest the correct direction of the reform and at the same time must be a completely practicable transitional measure suited to the environment of this kind of contradictory struggle. At the moment, in looking into the future prospects of the format, goals and strategies of the reform, it is doubtlessly important to broaden the people's vision and deepen their confidence in the reform.



But I believe that the difficulty of the current reform does not come mainly from the picturing of its prospects but from the devising and taking of practical steps of reform. Among the many realistic problems is for example the separation of government from enterprise functions: if we talk about direction or orientation, then "separation" should be correct, but if separation is to as "sever at one stroke," then it is liable to face many problems which are difficult to overcome. In recent years, some of our comrades have become accustomed to the practice of "severing at one stroke." It seems to have appeared to them that in reform we must follow the ultimate goal format and implement thorough reform but if we turn to "stage-by-stage format" or "transitional measures," then we may be liable to criticism for having done only "improvement" work and not reform. People fail to understand that adopting certain transitional measures in the reform procedure is in reality taking active measures to advance in small steps. In the next three to five years, reform of the economic structure can only adopt the "step-by-step format" with the objective of putting the basic economic conditions in good order. If we step out of bounds dictated by existing objective conditions and stubbornly seek to do the work which can only be done in the future or at the next step and take the "ultimate goal format" as the reform target for the current stage, then we would find it very difficult to proceed. Therefore, in the reform work we should focus on studying and finding the practicable reform steps to be taken, bring forth the "target format" for the current stage and formulate transitional measures of small steps or medium-sized steps. Only by so doing can we locate the "stepping stones" to cross a river, be able to see the opposite shore, watch our steps, and enable the various reforms in the plan to progress smoothly.

In reform during the transition period there can only be "small-scale coordination" of a local nature

Reform of the economic structure is an extremely formidable project. It not only requires carrying out wholesale reform in the various sectors, such as production, supply, marketing, personnel, finance and materials, but also necessarily touches on changes in the people's way of thinking, way of work, and way of living. Because the entire national economy is a consolidated entity, among the various economic activities there exist close and inseparable innate relationships. Very frequently, "moving a hair disturbs the whole body" and brings about chain reactions. This may cause difficulties to those sectors which have first carried out the reform. For this reason, measures in reform need to be coordinated to form a complete whole; otherwise, reform can hardly be carried out. But, we can readily see that this coordination process temporarily cannot be applied to the whole. To ask for a reform "from top to bottom simultaneously" and "from right to left at the same time" not only is not objective but also is impossible. Indeed, we should not blame one another if we find conditions of not having moved in step. In reform in the transition period, we can only seek a breakthrough in certain weak, loose or crucial links of the entire economic chain. It is only possible to reform a portion first and then turn to another portion. For example, rural reform comes first and urban reform next; reform of small enterprises comes first and the larger

enterprises next; the coastal cities are opened up first and subsequently a gradual and strategic shift from east to west follows next. In undertaking reform during the transition period, we cannot anticipate the realization of a coordination process applied to the structure as a whole and cannot hope that all will proceed at the same pace but we should try our best to do so in a small way, or partially. When implementing a decision on reform from above, leadership cadres at various levels should never simply circulate the directive to be carried out, but should consider the actual conditions of their respective localities or departments and, within the scope of their authority and responsibility and in respect of the various phases that will be affected by the reform measures, carry out the various reform measures and attend to the necessary coordinations so as to enable the reform to progress smoothly and to achieve early results.

During the transition period differences in reform are objective; it is necessary to have initiative in reform and to plant foot firmly on internal reform

During the transition period, be it in regard to the time, or region or depth of the enforcement of the reform measures, disparities in the character of the reform are obvious. At such times, we frequently have come across cases of certain economic policies carried out in the special zones or developed areas being unsuitable for enforcement in the interior; or that typical experiences ascertained in experimental units are not in line with existing policies and cannot temporarily be put into operation, or that the economic development policies formulated by the provinces, municipalities and autonomous regions are not the same and may be dissimilar even in the cities and districts of the same province. In the course of the reform, the various regions cannot just sit and await policy-making from above. On the contrary, they should take due consideration of the actual local conditions and do away with those rules and regulations that have restricted the development of the productive forces and it is entirely appropriate to formulate policies beneficial to the reform and to opening up. Nevertheless, the policies and measures determined by the regions must be definitely beneficial to the state's overall leadership over reform. They must accept the state's macro control and must conform with the interests of the structure as a whole. In undertaking reform in such a large country as ours, it is necessary on the one hand for regions and departments to display an enthusiastic and initiative spirit of reform, and on the other for the reform to be carried out under leadership guidance and in a planned manner. On the macro side, control must be strengthened but we cannot launch an "all-out attack on all fronts." For example, state policies formulated for the special zones and the developed areas can only be carried out in the special zones and developed areas; measures stipulated for trial in experimental units should for a time be allowed to confine their "blossoming and bearing fruit" on the spot.

During the transition period, we cannot place hopes for the reform on requesting special and preferential policies from the state but should pay attention to performing a good job in the internal reform of the region or

department. This is similar to the invigoration of an enterprise. It is of course important for the department in charge to streamline itself and to delegate power, but after power is delegated, invigoration of the enterprise principally depends on the invigoration of the internal factors of the enterprise and the quality of job done in its internal reform. Indeed, external conditions, no matter how advantageous, cannot be wholly counted on. This is true with an enterprise and is also true with a region and a department. Only in undertaking reform on one's own initiative and planting one's foot firmly on internal reform can the reform have vitality and produce results.

During the transition period, changes in certain concrete policies and measures are normal; the key lies in adopting a positive attitude and a firm direction for the reform

Recently, leadership comrades in the central government have repeatedly referred to the reform as being experimental. As such, it is naturally possible that on certain sides there are rights and wrongs, advantages and disadvantages, active elements and possibly certain passive influences. As a reform measure, what is important is that the correct, advantageous, and positive are in the leading position. We demand that the reform measures during the transition period be correct in direction and that there are no serious mistakes. Minor setbacks and inadequacies are unavoidable but mistakes must be promptly corrected. Hence in the course of reform, readjustment of certain concrete policies and measures of reform is entirely normal. We cannot confuse them with the past "incessant changes in policy" under "leftist" influence. This is because these readjustments are under the guidance of the new economic structure and have as their premise the invigoration of the economy and the development of the social productive forces; whereas the changes made by "leftists" were made on an ossified structure and their premise was "taking class struggle as the leading factor." The two sets of "policy changes" are diametrically different and the consequences they bring to the social economy and the people's livelihood are basically different. In the past, we tasted the bitter fruits of "policy changes," and whenever a new policy was created in reform, we would pray that it "remained stable for long." This fear of changes can well be understood. My opinion is that we should strive to make certain measures of reform now being implemented become relatively stable. Even if in the course of enforcement certain inadequacies are discovered, we should, provided they do not harm the situation as a whole, in general carry on as usual, at least during the year in question, and make the revision afterward. This should be true particularly where certain concrete regulations with a bearing on the interests of the populace are concerned. We should desist from issuing an order in the morning and rescinding it in the evening but it should be permissible to issue one this year and change it next year. This kind of "change" is not changing the direction of the reform and returning to the old road but is promoting what is beneficial and abolishing what is harmful, and the more changes are made the greater is the benefit to the development of production and the more beneficial to the basic interests of the masses. What is wrong with this kind of change?



We should tell the people that reform in the transition period cannot be perfect or free from any defect. Take for example invigorating the economy. Owing to the lack of experience and inability of the macro-economy to catch up for a time, it is quite possible that following opening up to the outside and invigorating the economy, some "confusion on a small scale" may result, and the development of commodity economy and opening up to the outside world may bring along certain passive influences. In addition, certain people may take advantage of the vacuum caused by the reform, seize the opportunity to raise prices and engage in speculative activities, and so forth. All these can bring certain "dark sides" to the reform. To deal with conditions of this kind, we should be ideologically prepared and cannot be frightened on seeing the passive factors; nor should we mix the passive factors with the reform and erroneously come to the conclusion that the reform had brought them along. Neither should we take certain errors in the reform as unhealthy tendencies and oppose the reform altogether. It is necessary to draw a clear line between right and wrong. On the one hand, we should vigorously revise the inadequacies and imperfectness in the measures of reform and the concrete policies; on the other, we should clearly separate the main current from the branch current and clearly mark the borderline between the policy's own problems and problems from the outside. It is necessary to insist on the direction of the reform, lead the reform to develop in the midst of changes and advance in the midst of summing up the lessons gained.

During the transition period, it is necessary to place in the first place the establishment of new ideology and new concepts

We have often said: to invigorate the economy it is necessary to open up the country's doors so as to attract the technology, management methods, and funds of the developed countries; to enliven cities and towns, it is necessary to open wide the city gates and play up the many attributes and functions of cities; and to invigorate the enterprise, it is necessary to open up its factory gates and develop the horizontal economic relationships. At a time of the transition of the new and old structures, the old structure has left its mark on the minds of the people and the customary thinking formed is rather deeply rooted. To open up the people's minds, it is most important to have them thoroughly abandon the ossified and antiquated concepts and replace them with new ideas and new concepts. For example, we should correct the mental attitude of always following the beaten path and establish the concept of being courageous enough to create something new; we should insist on the rule of "developing the productive forces" in considering and handling problems and establish the concept of economic benefits; we must be able to stand in the midst of market competition to study counter-measures and establish the concept of opening up; we must dare to abolish traditional standard in employing people and the biases of the common customs and establish the concept of recommending only the talented; we must study measures as if we were thinking over systematic projects and must establish a concept of considering the situation as a whole; and so on. Here, we should especially emphasize the importance of establishing the concept of seeking truth from facts. To perform a good job in reform during the transition period, it is necessary to disregard

what upper levels say or what the books say, but to regard "facts", and everything should start from objectively existing facts. To accomplish this is not at all easy. It requires unselfish courage, a firm belief and a scientific attitude. It is only through firmly establishing these concepts that we dare to face squarely and abolish the defects in the structure, that we are capable of judging and dare to copy modern management experiences of foreign countries, that we dare to break the "leftist" influences and biases, and start something new to be different, and that we are courageous enough to shoulder the burden of errors found in the reform, promptly rectify them and insist on the correct direction of the reform.

To do a good job in reform work during the transition period, leadership comrades at various levels, regardless of how busy they may be, should never consider a case as it stands, but must, from start to finish, give priority to efforts to stir up people's consciousness and enthusiasm for reform; we must perform ideological and political work in reform well and make it an enormous motive force. Only when our broad masses of cadres and people are in this ideological state of mind will it be possible for us not to stall before danger or shrink before difficulties, or change our direction before reputation and profit but smoothly carry out the work of replacing the old structure with the new and score an overall triumph in the work of reform.

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ECONOMIC MANAGEMENT

REFORM OF COMMERCIAL STRUCTURE OF CENTRAL CITIES DISCUSSED

Beijing RENMIN RIBAO in Chinese 3 Jan 86 p 5

[Article by Zhao Erle [6392 1422 3525]: "A Summary of the Symposium on Theories of Reforming the Commercial Structure of Central Cities"]

[Text] Last October the Institute of Commerce and Economics of the Ministry of Commerce convened a symposium on theories relating to the reform of the commercial structure of central cities in Wuhan, which focused on the position, function, and reform of commerce in large central cities.

Special Commercial Position and Role of Large Central Cities Stressed. Everyone believed that the city must be the center of the overall economic reform, especially the large, central city. Everyone felt that in order to give full play to the commercial role of large central cities, we must first regard commerce as a strategic focus of the economic development of these cities and build them into modern commercial centers for the entire nation as rapidly as possible. Second, we must gradually expand the role of large central cities as core areas, construct a nationwide network for commercial circulation and make the large, central city a fulcrum in the state's macroeconomic control of the country's markets. Third, we must emphasize and focus on commercial reform in these cities and gain experience in this work to apply to the rest of the nation.

New Commercial Administrative and Enterprise Management Systems Must Be Created. Everyone felt that to implement the separation of state and enterprise responsibilities requires reforming the commercial and enterprise management system, and replacing it with new a management system. Some comrades believe we must strengthen commercial management departments at the city government level, organize commercial management committees, and eliminate all commercial bureaus to the centralized control of social commerce by city government in order to sever the relationship of economic interest between commercial administrative departments and state-run commercial enterprises. It was the belief of some comrades that, given present conditions, we must strengthen the management function of the first-level bureau, because it will be difficult for commercial management committees to immediately begin direct management.

Everyone believed that the reorganization of city commercial companies must proceed realistically and with prudence. (1) We must distinguish conceptually between "administrative management" and "business management." City commercial companies have always primarily engaged in business management. Now that management rights have been handed over to governmental departments after the division of government and enterprise, business management in our fields needs to be improved even more. (2) Commercial enterprises are characteristically small, decentralized, and deal with a vast range of business. Without the centralized management of the city company, it will be difficult for the enterprise to coordinate in an overall way, the various problems relating to operations, planning, finance, training, and social welfare benefits, and the state will have no way to implement macroeconomic control. (3) Now that there has been a separation of the responsibilities of the state and enterprise in state-run commerce, we still need and organ to take up the responsibility of managing the means of production that are owned by the state. Until this role is filled, it would be best to allow the city company take up the responsibility. (4) As regards practice, since city companies were transformed into "management types," widespread weakening of professional administration became apparent and similarly the results of competition among grassroots enterprise have been poor. Therefore, we can streamline the city company and its personnel, decentralize, improve services for grassroots enterprises and reorganize the city companies based on the different characteristics of the different cities and industries. However, we must not blindly transform all of them into "business types" or dismantle them all.

We must further improve the wholesale network. Everyone approved of creating a diversified wholesale network for large, central cities. There must be wholesale activities in state-run, collective, and independent, private enterprises, and in commercial, industrial, and agricultural departments on a large, medium and small scale. There must be both overall and specialized wholesaling. There must be stations, shops, and markets that can conduct wholesale business. We should allow specialized, concurrent and combined wholesaling and all sorts of agents and trust operations. We must also welcome outside concerns to our cities to set up wholesale organizations, and must do the same on the outside.

The retail commercial structure must be rational, and the structure and management of networks must be given a legal Foundation. Most comrades believed that commerce in the large, central cities must not only serve local residents, but must also focus on providing a convergence point for visiting merchants and the transient section of the population. In particular, we must improve the construction of flourishing commercial districts adapted to the position of the large, central cities.

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ECONOMIC MANAGEMENT

PRIORITIES FOR CHEMICAL INDUSTRY RAW MATERIALS DISCUSSED

Beijing RENMIN RIBAO in Chinese 4 Jan 86 p 2

[Article by Zhang Hongwen [1728 1347 2429]: "Give Priority in Raw Materials Allocation to Enterprises That Manufacture Quality Products and Get the Best Results"]

[Text] Tianjin (XINHUA)--This reporter has learned from the National Rubber Industry Conference which recently ended that the Chemical Industry Ministry has decided that from now on production and raw materials allocation in the rubber industry would be based on the product quality and economic returns of each enterprise in order to encourage enterprises to enhance product quality and increase economic results.

It was suggested at the conference that the goal of struggle for China's rubber industry during the Seventh 5-year Plan be to go after famous international brands and to seek to attain and surpass international standards. To realize this goal, the Chemical Industry Ministry will strengthen macroeconomic guidance and professional management over the 100 core enterprises in the rubber industry nationwide. A system of ranking in the rubber industry has already been set, and the relevant departments will appraise and categorize the enterprises according to product quality, balance between production and sales, and economic results. First-category enterprises will receive priority in arranging production and allocating raw materials in short supply; second- and third-category enterprises will find their production limited; raw materials in short supply will no longer be provided enterprises below the third-category level. The ministry also decided to rank rubber products according to quality, according unclear top prices for high quality.

Information provided at the conference shows that production is in good shape in China's rubber industry this year. Production of major products has already surpassed the planned quotas. However a tendency to emphasize quantity and speed at the expense of quality and results has appeared among some enterprises. Relevant persons have pointed out that the implementation of the above decisions of the Chemical Industry Ministry will aid in overcoming these unhealthy tendencies, and will stimulate enterprises to get better economic results and raise technical standards through competition.

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## ECONOMIC MANAGEMENT

### COPING WITH HIGHER PRICES FOR RAW MATERIALS

Fuzhou FUJIAN LUNTAN [FUJIAN FORUM] in Chinese No 10, 85 pp 38-40

[Article by Zhang Wenying [1728 4249 5391]: "On the Effect of Price Hikes for Some Raw Materials on Processing Industries and Policies To Deal with It"]

[Text] The Adjustment of Prices of Some Mining Products and Raw Materials Is Inevitable

There are many irrational elements in China's current price system, such as the unreasonable price ratios between different products, especially the tendency toward low prices for certain minerals and raw materials, one of the most outstanding problems. For example, the price of iron ore is not even as high as that of paving stones. The prices of pig iron and coal are also quite low. In 1983, the capital profit rate for the coal industry was -0.61 percent. Coal enterprises, most of which implement the centralized price policy of the state, are suffering losses.

One of the main reasons for the low price of some raw materials is a remnant from the old society--the irrational price structure created by imperialism in its ruthless exploitation of China's raw materials which were purchased at low price and sold at high prices. Since the establishment of the People's Republic, China continued to use this system, without making any fundamental changes. Another reason is to be found in a theoretical misunderstanding. During the 1950's China, under the influence of the Soviet viewpoint, did not admit that the means of production were commodities, and implemented a rigid system of price management without consciously utilizing the law of value to carry out reasonable adjustments.

These irrational price ratios have been detrimental to the development of the national economy.

First, it has been detrimental to the development of raw materials production. When the prices of raw materials are too low, production enterprises make no profits and even undergo losses, so that the greater the production the greater the losses. With the implementation of the policy under which enterprises pay taxes to the state in lieu of handing in their profits and are responsible for gains and losses, the enterprise first extracts development funds, floating wage funds, funds for bonuses and for welfare making sure that

the amount estimated is lower than that for other departments. This has a direct effect on the economic interests of the enterprise and its employees and does not stimulate the vast ranks of staff and workers to further develop production. Also, as raw materials are an important element of production, the scope and speed of their development limit the development of other industrial departments.

Second, it is detrimental to the rational utilization of natural resources. Overly low prices for raw materials make it difficult for units that use them to improve their accounting, save on raw materials and lower the costs of their products, and also encourage the waste of natural resources during production. Nor can it encourage the enterprise to make technological improvements, utilize new technology, use substitute products, or raise the overall utilization rate of raw materials.

Third, due to the low prices of some minerals and raw materials, profits are small, which can even lead to losses and high-price, high-profit processed industrial goods. This distorted situation has a negative effect on the balanced development of the national economy, and hinders the smooth conducting of the overall economic reform.

In summation, low raw materials prices have created numerous problems in the national economy. Therefore, correcting price ratios among different commodities, raising the prices of some mining products and raw materials and gradually changing this irrational state of affairs are pressing tasks.

#### The Effect of Price Increases for Raw Materials on the Prices of Processed Industrial Products

The raw materials, fuel and pig iron necessary for industrial production all belong to the category of the means of production. The price of the means of production forms the foundation for commodity prices. Therefore the adjustment of price of some raw materials and mining products will inevitably have an effect on the product costs, profits and prices of industrial processing enterprises.

1. The effect on costs. Price is value in the form of currency. Commodity price can be divided into three parts: the value of already consumed means of production, or transformed value  $C$ ; value  $V$  created by the laborer for himself; value  $M$  created by the laborer for society. Corresponding to this is the expression of currency as value--price, which is expressed as costs ( $C + V$ ) and profit ( $m$ ). In the material depletion aspect of cost ( $C$ ), are included raw materials, fuel, electric power, and other depletion expenses and the cost of fixed-asset depreciation. Depreciation cost is the annual entry of the value of machinery and equipment used in the course of production into product costs; therefore it is a fairly small proportion of the cost structure, approximately 3 to 5 percent, and has little effect on product costs. Whereas expenses involved in the depletion of raw materials are a large proportion of product costs, approximately 70 to 80 percent, and enter those costs all at once during the course of production. Therefore, when raw material prices increase, so the product costs of processed industrial goods.

It is just as Marx said: "The value of raw materials and supplementary materials enters immediately into the value of products which are manufactured as a result of their depletion, whereas the value of the various key elements of fixed capital is only figured according to the degree of their depletion, and thereby enter into the product gradually....The effect of the price of raw materials on the product is far greater than that of the price of fixed capital on product price. (Footnote 1) ("Capital" Vol 3, p 124)

2. The effect on profits. Product profit ( $m$ ), is a manifestation of the value created by the laborer for society, and is a component part of price. Given unchanging processed product prices an increase in raw materials prices and costs will effect the level of profit, because increases and decreases in cost. When costs decrease, profits increase, and when cost increase, profit decreases. Therefore Marx pointed out: "It is quite clear that because the profit rate is  $\frac{m}{C}$  or  $\frac{m}{C+V}$ , anything that effects the size of  $C$  or causes changes in the size of  $C$ , will also cause changes in the profit rate, even if the relation between  $m$  and  $V$  remains the same." (Footnote 2) ("Capital" Vol 3, p 122) What Marx is referring to here is the effect on profit when profit ( $m$ ) and wages ( $V$ ) remain the same. In fact, the total sum of wages in China during the recent few years has been changing, and forms such as piece-work wages have been increasingly used. Another thing that should be brought up is the competition among enterprises that results from the development of commodity production. With competition, the market is of supreme importance to the producer, and the growth of the market is in inverse proportion to commodity prices. In addition to not raising prices of some commodities as the price of raw materials increase, enterprises will even lower sales prices in order to capture the market. In this way, the profit rate will decrease rapidly.

3. The effect on the prices of consumer goods. As mentioned previously, an increase in the price of raw materials leads to increases in costs for processed goods, which in turn causes a decrease in profits for the processing industries if retail prices remain unchanged. If the rate of increase for raw materials prices is very high and exceeds the enterprise's total profits, material depletion cannot be compensated for in value after deducting wages. Under such conditions, if the enterprise wishes to maintain reproduction, it will either take energetic measures to reduce production depletion, or it will raise product prices in an open or disguised fashion. The latter method will inevitably effect the basic stability of market consumer goods prices, and thus be detrimental to the consumers' interests and social stability and unity.

#### Measures That Should Be Taken To Deal with Increases in Raw Materials Prices

Increases in the price of raw materials will lead to horizontal and vertical chain reactions in commodity prices. In order to avoid making the consumers pay for increases in raw materials prices and to ensure that the real income of the vast ranks of rural and urban residents will not decrease, the "Decision of the CPC Central Committee On Overall Economic Reform" clearly points out: "When the prices of some minerals and raw materials are raised, industrial processing enterprises must greatly reduce their usage, so that



cost increases due to such price increases are basically absorbed within the enterprises. A small part may be resolved by the state lowering taxes to avoid raising market retail prices of industrial consumer goods." In a planned socialist economy, the state can take measures and the enterprises can increase their capacity for absorption to reduce or negate the effect of price increases for raw materials.

1. The expenditure of live labor and material depletion. By improving management methods, processing enterprises can further increase labor productivity, reduce the expenditure of labor and materials in production and increase economic returns. This is of great relevance to the absorption of some raw material price increases and cost increases. Judging from the state of affairs in China's processing industries, the level of material depletion is generally much higher than in advanced countries abroad. Taking energy consumption as an example, the amount of energy consumption necessitated by China's output is three to fourfold greater than Japan's. Discrepancies among industries of the same nature in different regions within China are also great. For example, an advanced chemical fertilizer factory might use 1,100 KG of coal to produce 1 ton of synthetic ammonia fertilizer, while a backward plant would use 2,000 KG. This shows that enterprises have a definite capacity to absorb energy and raw material price increases in particular some newer industries, such as chemicals and electronics which have adopted advanced technologies, rapidly increased productivity and greatly reduced costs, are completely able to absorb price increases for raw materials, with energy to spare to reduce retail prices, open up markets and increase their competitiveness. However, the absorption capacity of some enterprises is limited, especially now that there is a intense demand on enterprises that manufacture consumer goods to absorb price increases for raw materials, which is frequently beyond the ability of many enterprises. In such cases, this type of method would not be totally reasonable. The capacity for processing enterprises to absorb increases in raw material prices can only be strengthened when all the various links in the processing industry can absorb and digest them.

2. Reducing taxes. Taxes form a component part of commodity price. Increases in raw material prices cause even more increases in production costs, reductions in profits and even losses for enterprises that manufacture low-priced products with a low profit margin. In order to avoid raising retail sales prices for industrial goods, the state can reduce or waive product taxes or revenue taxes, thus transforming taxes into profits to promote reproduction. The reduction and waiver of taxes can also take the form of returning adjustment taxes. In the past, quite a few processing enterprises in many areas were able to reap large profits from high-priced products due to their use of cheap labor and raw materials. This was an irrational shift, in the creation of value by enterprises that manufactured basic products. This "differential income" was necessary and rational before the price reform when taxes kept up with prices and were adjusted in order to remit money to the state, and irrational prices were adjusted to reduce disharmony among enterprises. However, the situation has changed--raw material prices and production costs have increased. Some adjustment taxes should be returned in order to counter the effect of these price hikes, an

effect which is particularly great, as in the rate of material depletion in some regions where there is a concentration of processing industries such as Tianjin and Shanghai. For some time, management and administration in these regions has improved, as has labor productivity. They have acquired fairly advanced material depletion norms and their potential to lower costs has been limited. It seems that a large portion of the effect on cost of increases in raw material prices can only be resolved by adjusting taxes, that is by readjusting methods of the redistribution of profit.

3. Irrational price increases for raw materials must be avoided. The current reform of the price system is a structural one, and is based on the demands of equal-value exchange and the relationship between supply and demand, involving the increase of some irrational prices and the decrease of others. It does not imply an overall price increase. There is no exception for the adjustment of raw material prices. If all raw materials prices were uniformly raised, irrational differences in price relations would not only be impossible to straighten out, but increases in commodity prices would occur one after the other, and their consequences would be disastrous. Therefore the "Decision" refers to "raising the prices of some minerals and raw materials" and not all of them. However, the prices of some raw materials, which were not really too low, have been greatly increased, which has created difficulties for reproduction in processing enterprises. For example black pigment a major raw material used in the production of rubber products, requires 800 yuan to manufacture 1 ton. Its original retail price was fairly high 1,700 yuan per ton--and was later raised to 2,200 yuan, while the retail price of rubber shoes did not change, which resulted in 28 out of 33 shoe factories belonging to the Shanghai Rubber Co. undergoing financial losses as large as 84.8 percent. Rubber shoes are necessary items in the people's daily lives so profits have always been small. Because capacity to absorb price hikes in raw materials in the industry has been limited, enterprise production has gone down, which has led to short supplies on the market. Therefore we must follow the principle behind the structural reform in prices and avoid irrational price hikes in order to reduce pressure on processing enterprises.

This touches on some theoretical questions: Is value the decisive factor in socialist commodity price, or is it, as some people believe, the relationship between supply and demand? Also, there is the problem of a reasonable socialist profit rate.

I believe that the basis for setting prices ought to be value or its transformed state, while at the same time the relationship between supply and demand should be considered. The former is basic and primary, while the latter is secondary. The two cannot be given equal weight, nor can the order of their importance be reversed. If they were, commodity prices would be totally under the sway of the market, which would inevitably cause drastic increases and decreases in price and lead to a state of anarchy in social production. This is inconceivable in a planned socialist economy.

At the same time, we must further study and determine theoretical prices and the rational social average profit rate required by social reproduction to provide the enterprises reference material for the setting of their prices.

If we do not, there will be no objective basis for determining and supervising the rationality and fairness of prices. This is terribly important today, because with the implementation of the overall economic reform, administrative streamlining and decentralization, the enterprise will have the power to set some prices, and price and profit are directly related to the interests of the enterprises and its staff. In such a situation some enterprises attempt to correct unhealthy styles of work not by improving management methods and increasing economic returns by reducing costs, but by raising prices to increase enterprise profits. This is destructive of normal economic functioning, and hinders the smooth implementation of price reform.

4. Adjusting industrial and product structure according to local conditions. In an irrational price system, price cannot provide correct information for production, and there are frequent shortages of some raw materials. However, when prices are low profits small, prices cannot stimulate the development of production, while some enterprises engage in blind production of processed products due to the high prices and large profits involved despite saturation of or over supply on the market. Therefore enterprises compete with each other for raw materials, or try to get by without them, thereby intensifying contradictions in the supply and demand of raw materials, and leading to irrationality in the industrial and product structure of some areas.

Increases in raw material prices imply that the era of low-priced natural resources is over for processing industries., which creates a good deal of pressure on them. There are always shortages of necessary raw materials and energy in places such as Shanghai and Tianjin which do not have their own sources of supply. Difficulties will grow even worse if the product structure is not adjusted. Therefore places such as Shanghai should adjust industrial and product structure according to local conditions, and transfer, on one hand, some industries that consume much energy and materials to inland locations where there are sources of energy and markets to facilitate in the procurement of materials, avoid long-distance transport and get the maximum use and profit out of them. On the other hand, they should make full use of their unique, local advantages to construct new industries, and develop some first-rate new products that require little expenditure on materials or energy. At the same time, they could import advanced technologies, absorb and create new technologies, develop the exchange of technical commodities and use them to support the interior and eliminate poverty in order to promote economic development nationwide. In this way, both industrial and product structure can be rationally adjusted, while difficulties surrounding the increase of raw materials prices can be cast off.

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## ECONOMIC MANAGEMENT

### SAMPLING OF URBAN ECONOMIC REFORMS

Shanghai SHEHUI KEXUE in Chinese No 7, 15 Jul 85 pp 13-15

[Article by Tang Qiusheng [0781 4428 3932]: "Cities Tackle Urban Economic Reform in Different Ways"]

[Text] The second information exchange conference on urban economic reforms in 15 cities was held from 11 through 14 June in Shanghai. It was attended by delegations from such sister cities as Tianjin, Beijing, Chongqing, Wuhan, Shenyang, Harbin, Nanjing, Guangzhou, Xi'an, Dalian, Qingdao, Changzhou, and Shashi, and a number of special delegations. They brought with them for our reference and enlightenment information and experience about reform in their localities.

#### Seven Basic Rules for Invigorating Large and Medium-Sized Industries

Shenyang went about enterprise invigoration aggressively. The core of its urban economic reform is a series of measures to simplify administration, delegate power, and liberalize policies, with spectacular results: many large and medium-sized enterprises have become more vital to various degrees. Seven basic lessons can be drawn from Shenyang's experience. First, modify one's business ideology and adopt systematic commodity economic concepts. This is an important prerequisite for invigorating an enterprise. Second, implement a factory director responsibility system and establish a leading group made up of pioneer and striving types. This is a basic guarantee for enterprise invigoration. Third, establish small accounting units and perfect all kinds of contracting responsibility systems. This is an important measure in enterprise invigoration. Fourth, tap the potential of qualified personnel to the full. This is a key to enterprise invigoration. Fifth, concentrate on one trade while diversifying into other areas. This is an effective means of enterprise invigoration. Sixth, speed up technical transformation and technical imports. This is a key strategy in enterprise invigoration. Seventh, develop horizontal economic and technical integration. This is a path enterprise invigoration must travel.

Based on its experience in its initial stage of reform, Shenyang believes its most pressing task right now is to ideologically unify the masses of workers, particularly leading cadres, further fuel their fervor for reform, boost their confidence in reform and zero in on the following four problems: first,



correctly understand the dialectical relations between strengthening macroeconomic control and stimulating the microeconomy, and raise the public's consciousness of the need to vitalize enterprises under macroeconomic control; second, correctly understand the relations between reform, the open door policy, economic stimulation and stamping out new unhealthy trends; third, insist on realities as one's point of departure, have the courage to explore and innovate; fourth, further simplify administration and delegate power, continuously improving the external conditions for enterprise invigoration.

#### Bravely Explore Ways To Reform Industrial Managerial Organs

The Beijing municipality set about reforming industrial managerial organs in the spirit of the 3d Plenum of the 11th CPC Central Committee. This reform was based on the expansion of the autonomy of enterprises and revolved around enterprise invigoration. The municipality summed up lessons from successive reforms in the past, carefully analyzed the old managerial setups, and changed those aspects of it which impeded the development of productive forces and were not adapted to the new economic forms. The result is new managerial machinery which lives up to the demands of the overall restructuring of the economy and the role befitting a central city. Gradually an urban industrial managerial system which benefits economic stimulation as well as strengthens macroeconomic control is taking shape. The reform consists of the following steps and measures: 1) Continue to delegate responsibility to enterprises and the grassroots. Wherever power should be delegated to economic commissions, general companies (bureaus) and second class companies, this should be done firmly. The phenomenon of abrogating power to oneself should be quickly stopped. 2) Carry out reform pilot projects conscientiously. So far, pilot projects have been carried out in the managerial units of three bureau-level enterprises; the Chemical Industry General Company, the Textile Industry General Company and the Machine Industry General Company. 3) Units where pilot projects were carried out first solicited opinions and on that basis put forward reform plans for second class companies. They either restructured the companies or else proposed to abolish the administrative companies. This was followed by some hard thinking about the reform direction of the general company itself. In the first 4 months of this year, experimental reforms in the three general companies have obtained some preliminary results. Of the 27 second class general companies under them, 23 were administrative companies. As of late May, 20 have put forward reform plans, of which 15 have been given formal permission to carry them out. Right now Beijing is organizing a relevant team (including economic experts) to draw up an overall plan for restructuring municipal machinery.

#### Reforming the Cadre Personnel System in Enterprises

Wuhan began by reforming the cadre management system, delegating cadre management power to every level and promoting qualified personnel flexibly in a variety of ways. Its cadre management reforms consist of five aspects:

1. Replacing the exclusive appointment system with a variety of measures to actively promote outstanding people. Wuhan has formulated reform plans for six cadre personnel procedures, including democratic elections, recruitment,



hiring, and self-recommended contracts. Self-recommended contracts, for example, are where the potential contractor comes up with a contracting plan for review by the party organization in the enterprise and workers representative conference. They will then select the best candidate who will be required to sign a contract. Whatever the method used, the city invariably takes the mass line extensively and taps people for leadership positions who are genuinely qualified.

2. Reforming the cadre employment system. Previously the state did the hiring. Now the enterprise can take the initiative in selecting its own workers. The cadre selected to fill a position in the authorized establishment of a unit does not have to go through the formalities that a state cadre does. His salary and other terms of employment will be appropriate to the level at which he is hired. When his employment period is up, he may continue to be hired or be dismissed, depending on his performance. If he is dismissed, he will not be allowed to keep his cadre salary and must return to his original post.

3. Abolishing the system of departmental ownership, reforming the cadre allocation system and admitting a large number of qualified people. First the city relaxed the conditions for the transfer of college graduates and professional, technical personnel to Wuhan, delegated the power to deploy personnel and simplified deployment procedures. Second, it set up an expertise mobility service center to act as a go-between for the rational circulation of personnel. Third, it encouraged the movement of professionals and technicians toward collectives and township and town enterprises with such mechanisms as selection, temporary transfer, recruitment, part-time employment, contracting and skills matching. Fourth, it absorbed specialized technical personnel from colleges, universities and research units in the Wuhan area with their high concentration of talent through negotiated transfer, temporary transfer, employment offers and part-time employment, etc.

4. Reforming the cadre management system so that enterprises can now manage people as well as affairs. Wuhan has delegated cadre management powers at every level, entrusting to enterprises the authority to name deputies, appoint and remove middle-level cadres, employ rank-and-file cadres and transfer them. In the process, the orders of the leadership of an enterprise are allowed to prevail.

5. Reforming the cadre assessment system by democratizing it. Wuhan experimented with a democratic cadre assessment system in a number of enterprises. A "democratic cadre assessment committee" was put together and the masses were widely mobilized to assess and evaluate the enterprises. The assessment was semi-annual. Whoever was judged to be outstanding four successive times was moved up one peg on the floating wage scale while whoever was rated substandard twice consecutively was either removed from his present position or dismissed and returned to his original production post.

In addition, the cadre personnel system in party and government organs was also reformed. A tenure system has now been applied to all cadres in organizations above the departmental level which are directly administered by the municipality. Finally, even the selection of the third echelon has been

reformed to the extent that recruitment advertisements are now placed in newspapers.

#### The Establishment of Trade Associations To Strengthen Horizontal Integration

In restructuring its economic system, Chongqing actively explored the possibility of strengthening industrial management through the establishment of industrial associations and horizontal integration. The Chongqing Glass Industry Association is the first industrial group in Chongqing and also one of the country's earliest local industrial associations. Now that its association has 31 members, the municipality's glass industry has basically been organized and begun building up its horizontal connections city-wide and province-wide. From this experiment, Chongqing concluded that there are four advantages about the industrial association as a tool of industrial management. First, it breaks down local divisions and barriers and promotes horizontal economic integration. Second, it helps overcome the shortcomings of blurring the lines between government and enterprises, of government supplanting the enterprises, and of enterprises supplanting the government. It promotes enterprise vitalization and gives impetus to the Industry Bureau to simplify administration and delegate responsibility. Third, it spurs enterprises to cooperate to make up one another's weaknesses and advance together by converting the strength of a single unit into the strength of an entire industry. Fourth, it helps bring out the city's central function and develop intra-industry integration. An industry association should make the offering of good services its main objective and uphold the three principles of mass line, openness and democracy.

#### Establishing Enterprise Groups To Develop Urban and Rural Economies

A new breakthrough has appeared in Changzhou's urban economic reform and it took the form of industrial integration, a new way to organize enterprise production forces rationally. This new form of organization revolves around famous brands, good quality and new products and is buttressed by key factories. Voluntarily and on the basis of mutual benefit, enterprises come together and form multilevel groups which can take a multitude of forms and combine cities and villages. Urban and rural needs are the incubator of enterprise groups. Cities have products, technology, management skills and information; these are urban advantages. On the other hand, villages have factories, land, labor and capital. These are rural advantages. Combining these two sets of advantages gives rise to the strength of urban-rural integration. The Changzhou Electronics Industrial Company has successively set up six general factories, including those for tape recorders, electrical machinery, relays and potentiometers, capacitors and radio materials, and 33 branch factories. Total output value in 1984 amounted to 200 million yuan and net profits exceeded 30 million yuan, up 50.3 percent and 66.8 percent respectively over the pre-integration period. After the Changzhou Camera General Factory was set up, output shot up 10-fold in 3 years, reaching 190,000 in 1984, one sixth of the nation's output. It is now the country's second largest camera maker and the annual increase rate of its profits and taxes is more than 60 percent.

## Establishing A New Market System

Through reform, Lanzhou has gradually perfected its market for means of livelihood, established a market for means of production, and opened up a technical information market, a capital market and a labor market. Thus a new market system suited to the planned commodity market is taking shape. First, it developed collective and individual enterprises and set up a trade fair. These enterprises were set up in accordance with the nature, magnitude and location of social needs. As of late 1984, there were altogether more than 20,000 individual industrial and commercial households in the city, involving 30,000 people, of which 1,300 households with 23,000 people were engaged in commercial operations. Second, it reformed the materials circulation system and established a market for means of production. Today 10 trade organizations for means of production have been set up, changing the old situation in which the allocation and distribution of goods and materials were excessively controlled, where the distribution system was overly complicated and where fees were collected at every level. As a result, the circulation of goods and production were promoted, with particularly positive effects on the growth of small and medium-sized enterprises, street enterprises and township and town enterprises. Third, it promoted the commercialization of science and technology and established a technology market. The commercialization of science and technology requires the establishment of a technology market, which, in turn, accelerates the conversion of scientific achievements into economic achievements. So far the technology market has already resulted in 80 deals involving technical achievements. Fourth, it established a capital market. Capital is raised in four major ways: internally in an enterprise by its workers who buy its shares; raising capital from among members of the public; using capital to benefit laborers, who then contribute capital through employment; and cooperative operations for mutual benefit. Fifth, it established a labor market in accordance with the objective requirements of a planned commodity economy. According to incomplete statistics, there are now over 50 service stations in Lanzhou which help people find all kinds of temporary jobs. There are also several labor markets where workers directly offer their services to prospective employers without an intermediary. The development of the labor market has definitely helped satisfy the needs of urban residents for different services. It constitutes a new way of merging the circulation of labor with the means of production.

## Establishing A Three-Dimensional Science and Technology Market

Tianjin has made acceleration of the pace of reforming the scientific and technical system, full development of its science and technical market and expansion of external and internal technical exchanges an important part of its urban reform. So far Tianjin has established 171 science and technology trade organizations, which have been instrumental in arranging all manner of consulting work for 260,000 people, of whom over 10,000 are engineers or above. Transactions in the technology market come in all guises, depending on their characteristics and needs. A scientific achievement may be made over once and for all. The profits derived from an achievement may be divided according to some formula. Some scientific research units have gotten together with production units for joint development. Some enterprises have been inviting tenders to undertake research on certain scientific topics.

Large-scale scientific equipment is being leased for use for a fee. Scientific and technical information is being circulated and so on and so forth. This wide array of scientific technical transactions has made the technology market more and more active. Because of the city's efforts to nurture the growth of the market at various levels and in so many forms, the market has developed three-dimensional features, vigorously promoting the integration between science and technology, on the one hand, and production, on the other; shortening the time it takes for scientific and technical achievements to be transformed into productive forces; and helping many scientific and technical achievements find a home where they can be put to practical use, with remarkable economic results. According to incomplete data, the total volume of business of 56 scientific and technical trade organizations has amounted to more than 100 million yuan. During its first year of operations alone, the permanent science and technology market already had 1,400 contracts to its credit, including the transfer of technology and technical consulting, with a total value of 15 million yuan. Preliminary estimates are that when these projects are put into operation, they will boost economic results by 180 million yuan.

### Integrating Industry and Trade To Yield Good Economic Results

In a pilot project in industrial and trade integration, Qingdao decided that the Qingdao Textile Joint Import and Export Corporation (abbreviated hereafter as the "Qingdao Textile Corporation") should integrate industry with trade, integrate imports with exports, concentrate on export and import processing, calculate its prices in accordance with international prices and be responsible for its own profits and losses. The project eliminated the shortcomings of the existing foreign trade system and brought to light the advantages of the new system of industrial and trade integration. Now that enterprises are directly involved in negotiations with foreign businessmen, they are better placed to understand international market information and modify their products in a timely way and be more adaptable in order to continuously expand their product line. Since going into the business of processing with imported materials in 1983, the Qingdao Textile Corporation has made use of the advantages afforded by industry-trade integration to import raw materials lacking at home. Consequently, not only has it come up with new products, but it has also upgraded product quality and become more competitive. It has taken pains to increase the extent to which export cotton cloth is processed and expand its proportion of printed and dyed cloth. Because of changes in product mix, the unit price of cotton cloth has gone up. As an economic entity where politics and business are kept apart, the Qingdao Textile Corporation enjoys a certain measure of autonomy in managing its own business and there is relatively little administrative interference. The integration of industry with trade shortens the chain of command, reduces the number of personnel involved and increases efficiency. It is superior to the old foreign trade system in its ability to earn foreign exchange, lower the cost of earning foreign exchange, speed up the rate of capital turnover, reduce the costs of circulation, increase profits and so on.



## Opening Its Door Wide To Welcome Foreign Businessmen

To promote joint enterprises and stimulate its economy, Guangzhou has broken down regional barriers and open its door wide to admit outside businessmen into the city to do business and set up enterprises. As of late 1984, 627 outside enterprises have been allowed to register in Guangzhou, with a combined registered capital of 150 million yuan. Guangzhou has liberalized its policies toward outside businesses and adopted preferential measures. As far as the scale of foreign businesses is concerned, they used to be limited to retail outlets and showrooms. Now companies, branch companies and buying and selling departments are allowed. When an investor from out of town wants to build a factory in Guangzhou, he can directly apply to the municipal Industry and Commerce Bureau instead of going through the municipal government. Other measures have also been taken to solve the problems of site and land to make things as convenient as possible for investors. Experience shows that not only is the entrance of foreign investors in Guangzhou no impediment to the development of the municipality's economy, but it has actually been a boon to it. It has contributed to its social and economic results in six ways: introducing advanced technology and equipment and channeling them to the interior; supporting economic development in the less advanced areas; opening up a new path for the development of science and technology and the training of expertise; breathing life into a host of enterprises and fuelling industrial development; opening up markets for unpopular products suffering from sluggish sales as well as good quality well-known products through all kinds of joint operations between industry and commerce, and between industries; shortening the circulation chain, speeding up the movement of goods and clearing up goods circulation channels.

## "Eight Changes" To Stimulate the Real Estate Market

In restructuring its urban economy, Harbin has put forward 40 reform ideas to stimulate its real estate economy. The kernel of its program is to externally open up the real estate market and stimulate the real estate economy, and internally strengthen the vitality of enterprises and stimulate real estate management. Briefly this involves effecting eight changes:

1. From control to management. In the past, the municipality was content to run a small number of public buildings. Today it has liberated itself from that little world and oriented itself squarely toward the entire municipality, the entire province, the entire society, and to tackle both internal and external markets. In the process this former small real estate operator has become a large real estate manager.
2. From a welfare system to commercialization. The government has now made a break with the old system, unchanged for many decades, in which housing was allocated without cost and rent subsidies were doled out. This has been replaced with the commercialization of housing and land.
3. From the supply system to functioning as enterprises. Real estate units must get rid of their longstanding indifference to costs and accounting and their reliance on subsidies. Now they must become accounting units and



economic entities with their own independent accounting systems, and responsible for their own profits and losses.

4. From a single line of business to multiple forms of business. The old phenomenon of a handful of people running a few buildings and living off rents must come to an end. There should be a fixed number of staff members each with specific tasks.

5. From monopoly to competition. The old official monopoly, which gave the government the sole right to buy and sell, has given way to competition among a number of operators all striving to be the best.

6. From bureaucratism to a service orientation. The former mentality was one of control and of keeping the tenants in check. In the new mentality, tenants come first, a good reputation is considered a top priority, and there is a wholehearted commitment to serving the people.

7. From the merging of government and enterprises to simplifying administration and delegating power. Previously power was concentrated in leading organs, which had an adverse impact on grassroots initiative. Now this has changed. Organizations are simplified and tasks which belong to enterprises and institutions are decentralized. Bureaus are to exercise only governmental functions.

8. From the issue of administrative decrees to the offering of coordinating services. Leading organs must no longer act as powers around which grassroots units must revolve. They must serve the grassroots.

12581

CSO: 4006/371

ECONOMIC MANAGEMENT

HENAN ENTERPRISES DEVELOP LATERAL ECONOMIC TIES

Beijing RENMIN RIBAO in Chinese 9 Jan 86 p 2

[Article by Li Haifu [2621 3189 3940] and Ji Shifa [1213 0013 3127]:  
"Henan Enterprises Successfully Develop Lateral Economic Ties; Implement a Policy of Preferential Treatment; Adhere to the Principle of Voluntarism, Mutual Benefit"]

[Text] Zhengzhou (XINHUA) 8 Jan 86--Last year Henan Province implemented a successful policy of preferential treatment to encourage enterprises based on the principle of voluntarism and mutual benefit, to use diversified methods to develop abroad lateral economic relations. By the end of December over 3,000 alliances were organized across the province. Nearly 10,000 enterprises sought economic ties with every province, city, and region nationwide, giving new life to Henan's economy.

Henan Province is located in the central plain and has an abundance of natural resources and convenient transportation. However its industrial base is weak. In particular, the narrowminded economic thinking of the small peasant has hindered its economic development. People in the province fear allowing any benefit to go to outsiders, and do not trust importation and lateral ties.

As a result, equipment in some enterprises has been backward for some time. Some places hoard their precious natural resources and rely on finance departments to make up for losses. In their analysis as to why some model enterprises in Zhengzhou, Anyang, and Loyang could develop lateral economic ties and show sudden increases in results starting from almost nothing, the provincial CPC committee and government discovered that the broad development of lateral economic ties and the utilization of the advanced technology and funds of each region was a shortcut in revitalizing Henan's economy. Therefore, the provincial CPC committee and government have encouraged all enterprises to invest in open factories in Henan on a cooperative basis, and have taken various strong measures to really allow the enterprise to become a relatively independent economic entity, to enhance motivation and pressure to maximize strong points minimize shortcomings, and follow the path of integration to allow for a flourishing growth of lateral economic ties throughout the province.

Organizing the distribution and complete coordination of spare parts and focusing on well-known, high-quality and new products is the major form of seeking lateral economic ties in Henan Province. Some technologically advanced large and middle-sized core enterprises, have, by developing lateral economic ties, have widely distributed some spare parts and low-grade products for entire machines. Without increasing investment, factory size or personnel, they have expanded production capacity and have the ability to develop new products. The Anyang Forging Equipment Factory is an advanced enterprise that produces a 150-jin pneumatic hammer. By working cooperatively with eight enterprises, it has expanded production in parts casting for these enterprises, increasing production volume greatly. In 1985, its output value grew 22 percent over the year before, and profits increased 56 percent.

Opening up the technology market and engaging in diversified compensated import and export is another method the province is using in developing lateral economic ties. Alliances for scientific research have been set up in a number of places. Methods such as compensated technological transfer, monitoring prices and buying shares and contracting for technology, and employing and organizing technical consultant groups have permitted direct integration of scientific research and production, and have promoted technical progress in enterprises. The Shan County Electronics Factory was originally a small plant that manufactured agricultural transformers. It had tried to change its production twice, but did not succeed due to lack of technology. After linking up with 11 units of scientific and technical research in Beijing, Xi'an, and Loyang, it developed 8 new technologies of which 3 won awards from the ministry, province, and prefecture. It also developed seven new products of which the aluminum silicate fire-resistant fibre carpet won the National Golden Dragon Prize. Profits realized in 1985 grew more than 40 percent over the year before. After linking up with a scientific research unit, the Loyang Mining Equipment Factory completed 6 systems and more than 20 new product designs that meet regular specifications, have created and tested technologies and put into trial production 7 new products, 2 of which are up to national standards, greatly increasing the enterprises's overall economic returns.

The development of lateral economic ties has also opened new routes for making up for deficiencies in and the rational utilization of capital, energy, and raw materials throughout the society. The canned asparagus produced in the Lohe Food Products, General Canning Plant sell very well in international markets. By linking up with the peasants, they have created a more than 5,000 mu asparagus-growing base, basically resolving the problem of the insufficiency of raw materials.

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24 March 1986

## FINANCE AND BANKING

## CHINA'S FINANCIAL SITUATION RAPIDLY RECOVERING

Beijing BANYUE TAN [SEMI-MONTHLY TALKS] in Chinese No 22, 25 Nov 85 pp 22-25

[Article: "China's Financial Situation Is Rapidly Recovering; Current Events Studies, Part Four"]

[Text] "The task of making a fundamental turn for the better in China's financial situation has already been basically accomplished." This is exciting news and an important result of the smooth readjustment and energetic reform of China's economy.

The state's financial situation is an overall reflection of the development of the national economy. The rapid improvement in the financial situation shows that the national economy is developing well. In recent years, along with the comprehensive implementation of reform and the development of the economy, we not only put a thorough end to the situation of the past few years in which state revenues steadily fell, creating a fairly large deficit, but also basically balanced state revenue and expenditures for 4 years in a row. This year we may even balance the budget. This demonstrates that China's economic resources have really been strengthened, and that there is light at the end of the tunnel for the state's finances.

The rapid recovery of the financial situation is primarily manifested in the shift from a continuous, yearly decline in revenues to a large, steady increase. In the 3 years from 1979 to 1981, in order to implement the four-point principle of "readjusting, restructuring, consolidating and improving" state financial organs have spent large sums of funds to resolve longstanding problems, especially those remaining from the 10 years of chaos, and the temporary appearance of a continuous decline in state revenues. In 1979, state revenue (the domestic part, the same below), fell 4.8 percent from 1978; in 1980 it fell 2.3 percent from 1979 and in 1981, 2.5 percent from 1980.

With the implementation of the four-point principle in the national economy, China's economy has begun to recover. The state has, at the same time, taken a series of measures to concentrate capital, increase revenues and reduce expenditures. Beginning in 1982, China's finances started on an upswing from its prior lowpoint of declining revenues for several years in a row. In 1982, state revenues increased 6.6 percent

over the year before; in 1983 they increased 11.7 percent over 1982, and in 1984 the situation was even more encouraging as state revenues grew 21.1 percent from 1983, reaching the sum of 146.5 billion yuan, and attaining the norm set for 1985 in the Sixth 5-year Plan 1 year in advance. From January to September of this year, state revenues increased greatly compared to the same period last year. It is estimated that the total increase for the entire year will reach approximately 170 billion yuan. Judging from these large steady yearly increases in state revenues, China's state revenues have entered upon a new stage of stable growth. Another reflection of the recovery of China's finances is the reduction of the deficit. After 4 successive years of a basic balance of revenues and expenditures, the deficit may be ended this year. In 1979 and 1980 when the readjustment of the national economy had just begun, the financial situation was poor and respective deficits of 17.7 billion yuan and 12.75 billion yuan were seen. The central authorities took these huge deficits, which were unprecedented since the establishment of the PRC, very seriously. Beginning in 1981 the CPC Central Committee took a series of emergency measures to readjust the economy and reduce expenditures, measures which achieved good results the same year. Although state revenue that year fell from the prior year's level, the deficit was reduced to 2.55 billion yuan, achieving a fundamental balance between revenues and expenditures. In the following 3 years, the deficit was 2.93 billion yuan in 1982, 4.35 billion yuan in 1983 and 4.45 billion yuan in 1984. A basic balance between revenues and expenditures was maintained for 4 successive years. This year we may wipe out the deficit and attain a balanced budget.

China is a developing nation in the midst of large-scale economic construction. Although there have been fairly large increases in state revenues every year, financial expenditures must inevitably increase along with the development of the economy and the increased demand for capital in all spheres. Given such a situation, it will be an important achievement if state finances are not only basically stabilized, but the deficit is eliminated this year as well. This achievement of ours has elicited the attention of people abroad. An article appeared in the July 16 issue of this year's NEW SWISS NEWS from Switzerland, one of the financial centers of the world, entitled "The Attractive Potential of China's Finances," which warned foreign financiers that China possesses "gigantic financial potential."

There is another important basis for saying that China's financial situation has rapidly recovered--the daily improvement of the structure of our financial expenditures which provides a reliable foundation for our revenue.

Overall, we have adhered to the principle of guaranteeing priorities and giving due consideration to the ordinary in the distribution of state expenditures in the last few years, and the expenditure structure has become increasingly rational. In 1981, in order to further adjust the economy and reduce the deficit, the state not only reduced investment in capital construction, but also reduced expenditures for national defense. Beginning in 1982 the state took a series of measures to



concentrate capital so that the funding needs of energy, transportation, and other key projects could be ensured. Outlays for culture, education and health have continued to increase every year. Funds for education, something which concerns everyone, have gone up an average of 14.5 percent annually in the 6 years from 1979 to 1984, which was far greater than the average yearly 5.7-percent increase in overall state expenditures for the same period. More than 70 percent of overall state expenditures in the past 6 years have been used in economic construction and on culture, education, and science. Although this still does not totally meet all the various social needs, development is, after all, proceeding in the right direction and has guaranteed that the state will meet the development needs of construction projects.

The readjustment of the national economy and the overall economic reform of the past few years have provided a reliable foundation for the steady growth of revenues and have led to the development of large sources of revenue. In 1980, the state implemented a policy for localities of "dividing revenues and expenditures, classifying labor contracts," and began a policy for state-run enterprises of retaining enterprise funds and profits, of accepting responsibility for both gains and losses, and switching from submitting a portion of profit to the state to paying taxes. The third of the above three reforms in particular has resolved the problem of enterprises all eating from the "same big pot" of the state, and has confirmed and placed within a legal framework the relationship of distribution between the state and the enterprise. This has not only led to an increase of revenue for the state, but has also expanded enterprise autonomy and increased profits retained by enterprises. Last year state-run enterprises retained 35 billion yuan in profit, a more than 11 fold increase over 1978. This great increase in the financial reserves of the enterprises has provided an ample amount of funding for enterprise technological reform and for economic invigoration. This has greatly strengthened state-run enterprises, which are the primary source of revenue for the state, and has provided a firm basis for increasingly large remissions of tax revenue from enterprises to the state.

These have all been fundamental changes that have occurred in the last several years in China's financial situation. Of course, this does not imply that there are no problems or difficulties. At present there are quite a few problems in the finances of the central government--its burden of providing subsidies is onerous; enterprise economic returns are not yet ideal, while costs and losses have increased; violations of economic and financial discipline remain serious, as some places exceed the boundaries of their authority and reduce or eliminate the amount of tax paid to the state, while others intercept that tax revenue before it reaches the state, and some enterprises blindly cut costs and avoid paying taxes by claiming arbitrary expenses, and so on. This all has a direct effect on state revenues. In the realm of expenditure, administrative expenses have grown greatly. Long, expensive conferences held under various pretexts have increased, while some places neglect overall social interests and illegally retain the increases in state prices when purchasing grain. All this has increased the state's financial burden. We cannot become blindly optimistic and careless because of the rapid recovery in the financial situation. Legitimately increasing revenue and reducing expenditure will always be the guiding principle in financial work.

## FINANCE AND BANKING

### CAUTION URGED IN USE OF INTERNATIONAL LOANS

Beijing ZHONGGUO JINRONG [CHINA'S BANKING] in Chinese No 12, 4 Dec 85 pp 50-51

[Article by Wang Xiangpin [3769 4161 0756] of the Economic Research Institute of the State Planning Commission: "Borrowing International Commercial Loans Should Be Treated With Caution"]

[Text] Current international commercial loan interest rates have dropped from 16 percent to approximately 8 to 9 percent, which presents us with an excellent opportunity to obtain credit. In order to ensure that the making of such loans achieves its objectives, we believe that attention should be paid to two problems:

#### I. Reasons for and Trends in the Fall of International Commercial Loan Interest Rates

International commercial loans carry with them no extra conditions and involve great risks and fairly high interest rates. However these rates have recently fallen markedly, almost by one-half. What is the reason behind this? After reviewing the world economic situation, it is our belief that there are four primary reasons:

1. A world economic crisis occurred from 1979 to 1982. According to UN statistics, with the exception of Japan, the GNP of seven major industrially developed nations--the United States, Japan, England, Italy, France, the FRG, and Canada--increased an average 2 percent from 1973 to 1983. The production slowdown in the capitalist countries led to a reduction in foreign trade, which was extremely detrimental to developing nations that rely on loans to maintain domestic production and hindered to a great degree, the releasing of credit from developed nations. This caused a relative surplus of commercial credit available and forced interest rates down somewhat.

2. The credit burden on developing nations is overly heavy and credit terms are pressing. The percentages occupied by the total foreign debt of the GNP in 1983 of several developing nations whose debt burdens were the heaviest were as follows: Chile, 103 percent; Peru, 76 percent; Argentina, 66 percent; Mexico and Brazil, 44 percent. In 1982 the percentages of foreign exchange earned by these countries via trade and nontrade exports that were used to pay back foreign debts were: Chile, 65 percent; Peru, 33 percent;

Argentina, 68 percent; Mexico, 57 percent; Brazil, 89 percent. In 1983 the deadline for the repayment of principal and interest on these commercial loans had arrived. Due to their inability to repay, the debtor nations were forced to temporarily stop taking further loans and to request a rearrangement of repayment schedules from the lender nations. According to a World Bank survey, in 1983 approximately 30 developing nations (including 11 out of 25 of the countries with the heaviest debt burden), reached agreements on rescheduling of loan repayment with official or commercial banks. The reduction in repayments in 1983 on both principal and interest of the developing nations was approximately \$23 to \$25 billion. The total reduction for 1984 was similar. This cessation of borrowing and lengthening of repayment terms by the debtor nations created difficulties in the extension of commercial foreign credit by developed nations, which had no choice but to ease credit requirements in order to avoid even greater losses.

3. In the 1960's and 1970's, most developing nations implemented policies to limit direct foreign investment, taking out a large amount of commercial loans instead. For example, in South Korea the percentage of commercial loans of the total foreign debt was 95.4 percent, while the figure for direct foreign investment was only 4.6 percent. According to World Bank statistics, the percentage of total direct foreign investment in the total foreign debt in 1983 of 28 developing nations that had rescheduled loan payments was, on the average, only 14 percent. The average figure for the remaining 49 developing nations that had not yet done so was 24 percent. Due to the debt crisis of the past 2 years, the developing nations have rushed to take measures to limit their international borrowing, which has increased difficulties in the extension of international commercial credit.

4. From the 1970's to the early 1980's, oil-exporting nations all raised petroleum prices on several occasions, which caused a great increase of the U.S. petroleum dollar on European currency markets and competition among other commercial banks for the loan-extension market. This was the reason behind the decrease in the overall interest rate for commercial credit. Due to the world economic crisis, OPEC has recently sought to lower petroleum prices, which indirectly demonstrates the effect of the world economic and financial market recession on interest rates for commercial credit.

The above are the primary reasons for the decrease of the interest rate on international commercial loans. It should be noted that the above situation cannot last too long, because the agreements reached on new loan repayment schedules in 1982 and 1983 have created a "mountain" of repayments for the debtor nations for years to come. We estimate that in another 3 to 5 years, the foreign exchange earnings of the debtor nations will not increase much, at which time they will be forced to make new loans to pay for old debts. It is estimated that from 1988 to 1990, interest rates on international commercial loans will again increase along with changes in supply and demand. This is a trend that we should examine carefully when making international commercial loans.

## II. Principles That Must Be Mastered in Applying for International Commercial Credit

Two principles generally must be understood in taking out international commercial loans: First, the amount of the loan must be based on the ability to repay both principal and interest on time, and cannot be limited by current needs, so as to avoid falling into the "debt well."

A correct estimate of China's ability to repay is necessary in order to make a rational entry into the world of international commercial credit. China's foreign trade has greatly developed since 1978. With the exception of the 1980 \$380 million imbalance of payments, the state's foreign exchange reserves have increased greatly every year. By the end of 1983, the state's foreign currency balance had grown more than 11-fold compared to 1978. However, in the past year or so, China's foreign exchange balance has decreased due to confusion in its use. At the same time, the Bank of China has signed purchasing contracts, short-term and energy-development loans with foreign parties amounting to large sums of money. Repayment of much of the principal and interest on these loans must begin early in the Fifth 5-Year Plan. In addition, repayment on principal and interest of National Treasury Bonds will begin next year. Obviously, China's total domestic and foreign debt will increase considerably for the next several years.

How can China be prevented from falling into a "debt well" by entering the international commercial loan market? We believe that borrowing and repayment of international loans should be done by the state in a centralized manner. First of all, the Ministry of Foreign Economic Relations and Trade must organize and approve of the specific enterprises and products that may implement "import agents," and the State Economic Commission must organize and approve the particular technological improvement projects for which credit may be utilized. The two ministries, the localities and enterprises must, on the basis of serious, detailed feasibility studies and investigation, sign credit contracts and clarify rewards and punishments. The principle behind this is that the state will not take responsibility for enterprise losses. If credit losses occur, they must be resolved by the enterprise or unit involved. On this basis, the two projects ratified by the two ministries will be submitted to the State Planning Commission for approval. The Bank of China will handle credit transferral procedures. Until the above measures have been taken, we should not rush into signing credit agreements, so that borrowed capital not be left idle.

In summation, judging from the practical situation at home and abroad, the state should not allow enterprises to freely incur foreign debts. Because this would mean the risks and losses would have to be taken by the state if there were problems, and the foreign banks would at such time, demand that the government take responsibility for repayment. The reason for this is that Chinese enterprises are state-run so the state should pay its debts. In addition, if state policies were to allow localities and enterprises to freely borrow money, given the present situation characterized by the

blind pursuit of speed and the expansion of investment, domestic shortages of energy, communications and transportation, and raw materials would inevitably be intensified, and the normal functioning of the macroeconomy would be disrupted.

Another principle that must be grasped in taking on international commercial loans is to reduce credit costs as much as possible. In addition to increasing the utilization and return rates on loans, we also must try to use fixed-profit methods to repay them, and at the same time, must discuss lowering various types of miscellaneous fees and charges. As supply is greater than demand in international commercial credit, foreign banks will do anything to extend loans in order to reduce losses due to buildup of credit funds. We should take advantage of this opportune moment to obtain even more favorable credit conditions.

But will demanding greatly reduced requirements for these loans cause the transactions to come to nought? Generally not. Although such demands will cause the lenders to reap a little less, their losses will be even greater if their credit funds stagnate for 2 or 3 years without being utilized. For example, if a 10-percent interest rate on a \$10 billion commercial loan is reduced by 2 percent, the lender will receive \$200 million less annually; however, if the \$10 billion stagnates for 1 year, a loss of \$800 million [sic] will be incurred. Therefore, in order to accelerate the credit turnover rate, the lender would be unwilling to allow its capital to idle. This is advantageous to us in negotiating international commercial credit.

To sum up the above, in most situations, taking on a certain amount of international commercial loans every year poses no major problem for a country like China, with its abundance of natural resources, vast markets, and ample supply of labor. However, the prerequisite condition must be that such loans can bring good economic returns and constantly increase our ability to earn foreign exchange via exporting. Otherwise, there may be consequences that are in exact opposition to our original hopes. This is the basic reason for maintaining a cautious, prudent attitude concerning China's incurring of international commercial debts.

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FINANCE AND BANKING

COMPULSORY SALES OF TREASURY BONDS CRITICIZED

Hong Kong MING PAO in Chinese 9 Jan 86 p 5

[Special dispatch from Shanghai: "A Chinese Employee of a Financial Institution Points Out That Treasury Bonds Have a Bad Image; Administrative Apportioning Must Be Revised"]

[Text] A Chinese employee, of a financial institution, belonging to the younger generation gave as his opinion: "Treasury bonds now have a bad image. Their reputation is lower than that of ordinary debenture bonds, and even lower than that of corporate bonds. This is an abnormal situation."

During the All-China Symposium on Financial Theories held in Changchun for middle-aged and young personnel in the latter part of November last year, a young member of the research institute at the Head Office of the People's Bank of China, discussing the treasury bond question with reporters, pointed out: "The issue of treasury bonds as the state's self-initiated long-term economic policy is presently still very worrisome in many respects."

This young man in his twenties said: "There is no need to conceal the fact that the treasury bonds currently have a bad image; their reputation is lower than that of ordinary debenture bonds, and even lower than that of corporate bonds; this is an abnormal situation. I am quite convinced that the treasury bonds are definitely not inferior to other bonds, but so far this matter has not been handled effectively. First, terms are too long; they are deficient by their inability to fluctuate and are also unable to instill a sense of security among the people. Second, the method of issuing the bonds by administrative allotments is contrary to the nature of bond issues. Third, there is a contradiction between the inflexible interest rate of the bonds and the rise in commodity prices. Fourth, failure to indicate a precise purpose of the treasury bonds creates an impediment in the minds of the general public as far as treasury bonds are concerned."

He said: "I suggest the adoption three measures: 1) To issue short-term bonds together with the long-term bonds. 2) To have long-term bonds with fluctuating interest rates, which should preferably be fixed 0.3 percent higher than for fixed deposits of the same duration. 3) All treasury bonds should be floated in the open bond market."

In his opinion the floating of treasury bonds, although within the scope of treasury credit affairs, is an operation closely linked with banking business. The banks should, therefore, take coordinated steps, namely:

1. According to the capital condition of the bank, it is a bank that should float the treasury bonds as agent.
2. During the time that the treasury bonds are being issued, bank interest rates for fixed deposits must be reduced or not raised.
3. The interest rate for treasury bonds issued by the specialized banks must be basically the same as for ordinary debenture bonds.
4. On the premise that the bonds are issued on the open bond market, a bond market shall be opened for a long period of time with the possibility of discounting, the rate of such discounts to depend on the fluctuations of the market.
5. Under the conditions of a continuously widening range of government bonds, the issue of treasury bonds must be made part of the state's unified credit plan and cash revenue and expenditure plan.

A further point is that specific funds must be used for specific purposes; the treasury bonds must be directly allotted to the Construction Bank as the source of funds, to be used by the Development Bank for developmental credits, and such funds to be invested so as to serve in conformity with the credit policy published by the Central Bank.

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## FINANCE AND BANKING

### MACROECONOMIC CONTROL OVER FOREIGN EXCHANGE URGED

Beijing ZHONGGUO JINRONG [CHINA'S BANKING] in Chinese No 12, 4 Dec 85  
pp 24-25

[Article by Hu Xiaolian [5170 2556 3550]: "The People's Bank Must Strengthen Macroeconomic Control Over Foreign Exchange"]

[Text] Foreign exchange is an important component part of the financial strength of the state. Large quantities of foreign exchange are needed for the four modernizations. For a fairly long period of time to come, there will be shortages in China's foreign exchange funds. The People's Bank must strengthen macroeconomic control over foreign currency, increase sources of income and reduce expenditure, and manage and utilize well our foreign exchange funds.

In recent years there have been some problems in the management of foreign exchange. Some regions and departments have used foreign currency beyond quota limits and gone all out for importing. For the sake of partial and short-term interests, some units and enterprises have engaged in duplicated large-scale importing of production lines, raw materials, and parts, relying on foreign exchange to support excessively high increases in production. Some even engage in the illegal resale of foreign exchange at high prices, thus disturbing the financial market. Therefore, strengthening foreign exchange management and improving macroeconomic control over foreign exchange is an important task in our current economic work.

#### I. We Must Adhere to the Principle of Collective Management in Strengthening Macroeconomic Control Over Foreign Exchange

Since the establishment of the PRC, we have always implemented a system of foreign exchange management based on the principle of collectivism and centralism. After the overall economic reform, great changes were made in foreign exchange management compared to the past in the targets, scope, and methods of management. However, we must still adhere to the principle of unified, centralized management of foreign exchange, because foreign exchange income is earned with difficulty via China's goods and materials and labor. China's economy remains fairly backward and the level of production technology is rather low; therefore, expanding exports and increasing foreign exchange earnings will be rather difficult. To change

this requires the utilization of a large amount of foreign currency to import advanced technology and equipment from abroad, the improving of China's production technology, and the increasing of labor productivity. For some time in the future, the contradiction between foreign exchange supply and demand will be a large one. In order to ensure the realization of the goals of the national macroeconomy, management must be centralized and foreign exchange funds must be balanced in a unified manner. The energetic utilization of foreign capital is an important way to resolve this contradiction. In recent years, the amount of foreign capital utilized in China has continued to grow, and ways of using the foreign capital have increased daily as have the channels for its importation. In order to guarantee the states ability to make regular payments, to make sure that the use of foreign exchange will not lead to an overly heavy debt burden and the reduction of economic results, we must also apply the principle of centralized management and macroeconomically control the scope and rate of foreign capital utilization.

## II. The Function of Strengthening Economic and Legal Methods in the Macroeconomic Control of Foreign Exchange

An important problem in foreign exchange control at present is that of dispersed, decentralized management. The job of managing foreign exchange in the state is divided among the Planning Commission, Ministry of Finance, Ministry of Economics and Trade, the People's Bank and the relevant local departments, each of which has a certain amount of power to review and approve matters related to foreign exchange. However there is no one department that has central control over foreign exchange and international revenue and expenditure. Thus the amount of foreign exchange and its utilization cannot be macroeconomically controlled. Therefore loss of control on this level is common. For some time China's methods of foreign exchange control were unitary and relied primarily on administrative methods and planning, which permitted rigid control but led to complete chaos when that control was loosened. At the same time that we rely on administrative measures we must also strengthen the role of economic and legal methods in the macroeconomic control of foreign exchange. Changes in the exchange and interests rates clearly effect the foreign exchange balance of payments. Beginning this year with the initial reform of China's price system, corresponding changes occurred in the level of commodity prices, and the cost of exchanging currency for export rose. In order to promote foreign exchange earnings via exporting and increased foreign exchange revenue, we should appropriately adjust the exchange and interest rates, so that these economic measures can have the effect of adjusting supply and demand of foreign exchange and promote exports and the utilization of foreign capital. At the same time, we must strengthen legal measures and utilize laws and regulations concerning foreign exchange management to put a stop to illegal activities relating to foreign exchange.

## III. Make Full Use of the People's Bank in the Macroeconomic Control of Foreign Exchange

Fluctuations in foreign exchange funds are not isolated phenomena, but are closely related to the domestic circulation of currency and commercial

circulation. Foreign exchange is earned via the export of China's goods, materials, and labor, which involves a depletion of domestic natural resources and a reduction in overall domestic supply. At the same time, foreign exchange utilizes domestic RMB funds, which increases the internal currency circulation rate. The use of foreign exchange can increase domestic supply of goods and materials, but due to the accompanying need for RMB auxiliary funds, an expanded amount of RMB is put into circulation, which increases the domestic need for goods and materials. Simple forms of control over foreign exchange or RMB funds are insufficient to ensure a basic balance between supply and overall demand. As a central bank, the People's Bank has the task of management and control of the funds of the entire state. If it focuses on RMB, and not foreign exchange, it cannot exercise overall control over state funds or truly get a handle on the RMB. As China's open door policy is further implemented and the volume of foreign exchange revenue and expenditure continues to increase, its effect on the balanced development of the national economy will become increasingly apparent. Therefore, integration between control over the RMB and over foreign exchange is necessary. As one of the most important organs of regulation over the national economy, the central banks must maximize their role in the macroeconomic control over foreign exchange and RMB funds.

#### IV. The Strengthening of Macroeconomic Control Over Foreign Exchange Requires Clarity of Focus

In Strengthening macroeconomic control over foreign exchange, the People's Bank must begin by controlling the amount of foreign exchange utilized, by increasing its effective use, and putting a stop to illegal activities.

First is control over the amount of foreign exchange utilized. Limiting foreign exchange expenditure according to revenue, increasing revenue, and reducing expenditure have been principles of ours concerning foreign exchange control for some time. However, in a situation where foreign exchange revenue has been fixed, controlling the volume of foreign exchange utilization is an important part of the macroeconomic control over it. If it can be controlled, the state can maintain a normal amount of foreign exchange reserves, which is of great importance in ensuring the normal development of the national economy. Because of the current shortage of foreign exchange, some regions and departments are requesting permission to borrow from abroad and the issuance of bonds. This tendency needs to be dealt with immediately, and the total amount of foreign exchange utilized must be controlled, because the scope and rate of the utilization of foreign exchange must be limited by the ability of the state to make foreign currency reimbursements. If this is not controlled, the debt problem will, in a few years, become a serious hindrance to the development of the national economy.

Second is augmenting economic returns in the use of foreign exchange. Macroeconomically controlling only the total amount is insufficient. The direction of foreign exchange flow must be controlled as well. Foreign exchange must be rationally distributed to all departments to ensure rationality in the economic structure and the greatest possible economic



results in terms of foreign exchange funds. China's fund flow cannot yet automatically adjust itself by using economic mechanisms and capital cannot yet automatically flow toward industries and departments that are the most effective economically and can play the greatest role in the development of the national economy. Therefore, the use of various means to distribute foreign exchange funds and guide them to the desired departments is an important part of macroeconomic control.

Third is putting a stop to illegal activities involving foreign exchange. Maintaining the integrity of the RMB and attacking the foreign exchange black market is an important part of efforts to strengthen the macroeconomic control over foreign exchange. Some regions have been engaging in illegal activities, such as selling, reselling, and speculating in foreign exchange at high prices, arbitrage, and flight of foreign exchange, which has created disorder in domestic finances, negatively effected the implementation of open door and domestic stimulation policies, and has had a bad influence both domestically and internationally. We must strengthen management and resolutely put an end to illegal foreign exchange activities.

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## DOMESTIC TRADE

### HINTERLAND ENTERPRISES SET UP 600 BUSINESSES IN SHANGHAI

Shanghai JIEFANG RIBAO in Chinese 23 Nov 85 p 1

[Article: "Hinterland Enterprises Have Opened More Than 600 Businesses in Shanghai During the Past Year"]

[Text] Today marks the first anniversary of the announcement made by the Shanghai Municipal Government of "Measures Concerning Certain Problems Relating to Economic and Technical Cooperation Between the Enterprises in Shanghai and the Various Regions." Except for Xizang, Qinghai and Taiwan, 25 provinces, cities and autonomous regions have established 669 stores in Shanghai during the past year. According to statistics compiled by the 326 stores which have begun operations, the volume of business has reached almost 100 million yuan.

The establishing of stores in Shanghai by outside areas has produced favorable effects in five different areas: First, it has facilitated the exchange of information between Shanghai and the various localities throughout the nation and promoted the production of commodities to meet market needs; second, it has opened up the channels for the circulation of commodities, reduced the number of links and speeded up the turnover of commodities; third, it has increased the supply of commodities and brought prosperity to the Shanghai market; fourth, it has served to promote the exchange of production techniques and to develop the economy of and bring prosperity to the various areas; fifth, it has increased the economic effectiveness of the enterprises, created more employment and increased the income of staff workers. For instance, the Hutai Trading Co jointly set up by Taicang County in Jiangsu and the Shanhaiguan Road Food Market in Shanghai is able to sell the special local products of Taicang, such as dried meat floss, in the Shanghai market and to establish trade relations between Taicang County and over 300 companies in Shanghai and the rest of the nation. The establishment by the various localities of stores in Shanghai has made it possible to ship porcelain from Jiangxi, rice wine from Shaoxing, silk fabrics from Zhejiang, ginseng from the Northeast and fur from Nei Monggol to the Shanghai market.

According to statistics, 24 percent of the stores set up in Shanghai by the various localities are stores selling mostly special local products, 31 percent selling mostly articles of daily use such as clothing and general merchandise, 11 percent selling mostly such means of production as machinery, electronic products and construction materials, 28 percent are engaged in such multiple businesses as tourism, storage, transportation, and hotels and 5 percent are businesses engaged mostly in technical economic, information, and consultation services.

## DOMESTIC TRADE

### SHANGHAI'S QUALITY PRODUCTS REACH ENTIRE NATION

Shanghai JIEFANG RIBAO in Chinese 24 Nov 85 p 1

[Article by Xu Wenlong [1776 2429 7893], Yu Jianguo [0205 0948] and Xia Hongxiang [1115 7703 4382]: "Shanghai's Famous, High Quality Products Are Penetrating the Entire Country; More Than 1,000 New Economic Associations Established Between January and September Enabling Output Value To Increase by Over 2 Billion Yuan"]

[Text] Shanghai has made the distribution of its renowned and high-quality products a special feature for speeding up the establishment of "domestic cooperation." From January to September of this year, it has transferred 1,500 technological items to over 1,000 economic associations of various types in 28 provinces, cities and autonomous regions throughout the nation and enabled them to increase their production value by over 2 billion yuan, or twice the amount for the previous year.

In recent years, the demand for Shanghai's renowned and high-quality producers by the hinterland has been increasing by some 20 percent annually. Due to the limited size of Shanghai and other factors, it can only increase its production 12 percent annually, so that there is a vast gap between supply and demand. With the development of domestic cooperation, however, it has increased its capacity for producing new, renowned and high-quality products by establishing a link between its facilities, technologies, and funds and the raw materials, factories, and labor resources in the hinterland. Taking the "Everlasting" and "Phoenix" bicycles as an example, Shanghai, by establishing joint operations with similar enterprises in Suzhou, Nantong and Urumqi, has been able to increase bicycle production by over 900,000 units, or 13 percent of the total produced in Shanghai. According to a sample survey, the newly added production value of Shanghai's traditional, well known and high-quality products in demand in newly created markets has amounted to some 1.4 billion yuan.

The accelerated pace at which Shanghai has established marketing relations with the hinterland for its well known and high-quality products has served to promote the upgrading and replacement of Shanghai's traditional products. The wide distribution of such products has, on the one hand, resulted in a yearly increase in the total amount of Shanghai's traditional products and, on the other, given the old enterprises a "breathing spell" to develop new technologies and new varieties of products. Through the establishment of domestic cooperation, for instance, the Shanghai Toothpaste Factory has been able to achieve a steady increase in the amount of production, production value and profits

and to take advantage of its opportunity to produce on a trial basis the Meijia brand of fluoride toothpaste to be sold in the international market.

The wide distribution of Shanghai's well known and high-quality products has also increased the capacity of the port to earn foreign exchange. The Shanghai Handicraft Import and Export Co., by establishing labor and trade cooperation and engaging in joint production with the concerned enterprises in Changshu alone, and by cooperating domestically to promote export sales, has been able to produce such traditional exports as redwood furniture valued at some 70 million yuan and to earn over \$20 million in foreign exchange.

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## DOMESTIC TRADE

### NINGXIA'S GROWING DOMESTIC TRADE LINKS

Tianjin TIANJIN RIBAO in Chinese 4 Nov 85 p 2

[Article by Jiang Senlin [5592 2773 7792]: "Ningxia Takes First Steps Toward Cooperation with the Outside World, and Especially Welcomes Other Provinces and Regions To Come to Ningxia To Establish High Energy-Consuming Industries"]

[Text] Since 1983, Ningxia has signed 500 economic and technical cooperation contracts with 14 provinces, cities and autonomous regions, including Zhejiang, Hebei, Henan, Shanxi, Shaanxi, Jiangsu, Liaoning, Tianjin, Beijing, and Shanghai. These contracts include agreements of intent in more than 10 industries, including food products, textiles, chemicals, metallurgy, machining, scientific research, and education. Two-thirds of these contracts have been for economic and technical cooperation projects and have primarily taken the forms of joint ventures and compensation trade. In particular, compensation trade is beneficial to both sides, and it has been welcomed by the cooperating units of other provinces and regions. A few projects have already begun to benefit both sides. In 1983, 1.5 million yuan of investment was provided by Jinhua City in Zhejiang Province to revive production by coking furnaces at the Shizuishan Steel Plant in Ningxia, and that year the factory provided Jinhua City with 2,000 tons of coke. The enterprises receiving technological assistance from other provinces and regions have for the most part attained favorable results. Last year, Zhenjiang's Shaoxing, Deqing and other chemical industry factories gave assistance to Ningxia's Zhongning, Zhongwei and Jialan chemical fertilizer plants, and reformed their technological management, thereby quickly reducing the steaming coal and electricity consumption and vastly improving the economic results of these factories. Practice has proven that economic and technological cooperation carried out by relatively economically advanced provinces and regions not only allows great advanced in the development of Ningxia but is also beneficial to the more advanced province or region. They can use Ningxia's abundant natural resources, manpower, and markets to give full play to their own superior technology and management methods, and thereby attain even better economic results.

In order to expand further economic and technological cooperation in areas in which we are opening up to the outside world, last June the People's Government of Ningxia promulgated five regulations, giving preferential treatment to other provinces, cities and autonomous regions that carry out



economic and technological cooperation with Ningxia. These regulations very quickly received the support of Shanghai, Zhejiang and other provinces and regions. They sent delegations one after another to visit, and even reached agreement on some areas of economic cooperation. This year, the entire province has already attracted 87 million yuan worth of foreign investment. Of this, the Zhenjiang Materials Corporation and the Jiangsu Metallurgy Corporation carried out the management of aluminum ingot production with Ningxia's Qingtongxia Aluminum Factory, and has already provided 70 million in investment funds to Ningxia.

An official of the Ningxia Office of Economic and Technological Cooperation told this reporter that, in view of Ningxia's actual situation, we welcome other provinces and regions to come to Ningxia to establish high energy consumption industrial enterprises and food processing industries. In concrete terms, this means that the complete processing of coal, food products industries such as beef and mutton canning, fruit and fresh vegetables, building materials industries such as glass, gypsum and cement, the processing of soybeans and citrus drinks, and fur processing are all being earnestly developed. Ningxia is located in the northwest, and our technology is backward. We especially hope that the high-level research institutes and scientific research institutes of other provinces and regions will come to Ningxia to carry out technological cooperation. In the gallop across the battlefield to develop the great northwest, we will make the greatest effort to provide favorable working and living conditions.

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DOMESTIC TRADE

BRIEFS

INTERIOR EXPORTS GOODS THROUGH TIANJIN--China's northern and northwestern regions recently called a conference on cooperation in foreign trade. The provinces, municipalities, and regions will this year supply Tianjin Port with export goods to the value of over 300 million yuan. The active increase of capacity to export and create foreign exchange is an important strategic task of the port and of the hinterland. Only by strengthening the lateral economic links between Tianjin Port and the hinterland and by launching a multifaceted cooperation will it be possible to arouse enthusiasm in many quarters and to bring everyone's individual strong points fully into play. The conference explored a variety of forms of cooperation in foreign trade between Tianjin Port and the hinterland, and between different places in the hinterland, such as joint operations, export agencies, etc. The conference, furthermore, opened up further channels for such trade, and the provinces, municipalities, and regions of the hinterland agreed through negotiations to supply Tianjin Port next year with export goods to the amount of over 300 million yuan. The various places of the hinterland also negotiated some items of foreign trade cooperation between themselves. [By Zhong Yichun [0112 1571 2504]] [Text] [Beijing GUOJI SHANGBAO in Chinese 6 Jan 86 p 1] 9808

SHANGHAI AGRICULTURAL TRADE FAIR--The Shanghai Economic Zone's first agricultural trade fair, which lasted 4 days, closed on 17 November in Zhangshu, Qingjiang County, Jiangxi Province. Coming from the Shanghai Economic Zone were more than 1500 representatives of the agricultural business world from 11 provinces and cities, including the 5 provinces and cities of the Shanghai Economic Zone, and Beijing and Guangdong. They participated in the mutual exchange of information and the exchange of technical knowledge. They looked at different goods for order, and held trade talks. According to statistics, this trade fair produced a volume of business worth over 30 million yuan, of which Jiangxi Province accounted for the highest figure 6.40 million yuan. This trade fair was arranged by the Shanghai Economic Zone Agricultural Information Service Center. [Text] [Shanghai JIEFANG RIBAO in Chinese 21 Nov 85 p 2] 12582/13068

FOURTEEN OPEN CITIES CAUCUS-- The first finance and trade work conference held by the 14 coastal cities was convened in Shanghai on 2 November. Representatives from the 14 coastal cities, including Beijing, Tianjin and Guangzhou, discussed problems with respect to urban economic reform, the open door policy and the policy of stimulating domestic markets. They analyzed the current market situation, exchanged experiences relating to commercial reform, and put forth some useful suggestions and ideas. [Text] [Shanghai JIEFANG RIBAO in Chinese 5 Nov 85 p 2] 12582/13068

FOREIGN TRADE AND INVESTMENT

CHEN MUHUA PRAISES SHANTOU FOR LEARNING FROM SHEKOU

Beijing GUOJI SHANGBAO in Chinese 23 Dec 85 p 1

[By Yang Zhicui [2799 0037 3862]: "On an Inspection of the Shantou SEZ, Chen Muhua Pointed out: 'The Shantou SEZ Learned well from Shekou; Developing one Sector, Building Up That Sector, Getting That Sector To Produce and Yield Benefits, Is a Very Good Policy'"]

[Text] After an inspection of the Shantou SEZ, Chen Muhua, councillor of the State Council and president of the People's Bank of China, approved of the policy adopted by the Shantou SEZ to "develop one sector, build up that sector, get that sector to produce and yield benefits." The SEZ learned from the experiences of Shekou and did so effectively.

Chen Muhua inspected the Shantou SEZ on 16 December. She said: This is my first visit to the Shantou SEZ. I saw many good things and was deeply impressed. Seen from the airplane, Shantou shows dark spots and light spots. The light spots are the newly developed areas, and they show that Shantou has been developed very fast in the last few years 1 year equaled 7 years. After seeing the Shantou SEZ, I think the SEZ has been run very effectively. To have learned from the experiences of Shekou, to have given priority to industry, and to have also exported most of the agricultural and fishery production, has been of great benefit for the development of the SEZ. The policy adopted by Shantou to "develop one sector, build up that sector, get that sector to produce and yield benefits" is a very good policy, and substantial progress has indeed been made.

Speaking of the banking conditions, Chen Muhua said that banking is important work. Finance and banking develops in the wake of economic development, but if financial work is done effectively, it can have a supporting and promoting effect on economic construction. I hope banking will be carried out more effectively and more actively. Chen Muhua also stated her opinion regarding China's present economic situation and expressed her intention of supporting the SEZ. Valuable opinions on the development of the SEZ were also expressed by Qiu Qing [6726 2532], vice president of the People's Bank of China, and Zhao Bingde [6392 4426 1795], vice president of the Bank of China, both of whom had also come along on the inspection trip.

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## FOREIGN TRADE AND INVESTMENT

### PROBLEMS, RECOMMENDATIONS REGARDING TECHNOLOGY IMPORTS

Beijing GUOJI MAOYI WENTI [INTERNATIONAL TRADE JOURNAL] in Chinese No 5, Sep-Oct 85 pp 58-60

[Article by Meng Jixin [1322 4764 2450]: "Views and Recommendations About Continuing Problems with Imports"]

[Text] Since the implementation of the open door policy, importing has become an important part of China's economic dealings with foreign countries. This development is attracting widespread attention both here and abroad.

Through importing, China has learned and absorbed advanced management techniques used in foreign countries and has effectively utilized imported technologies and equipment to increase production and improve quality. We should recognize that we have obtained solid results. But for a variety of reasons, there are a number of problems and lessons worth noting from this importing process. To make this process more effective in the future, we must earnestly review our experiences confront these problems, and adopt relevant measures.

The common problems in importing are:

1. The choice of imports is a problem. The goal of importing is to accelerate China's four modernizations. But under China's present limitations in funds, importing must focus on equipment and technology crucial to the four modernizations. Importing must also focus on equipment which will ensure steady exports over the long run and enhance foreign exchange earnings. Imported equipment should aid in import substitutions. However, the "three excesses and two shortages" problem is still widespread. The problem is an excess of consumer production lines (assembly line production), excess of production for domestic consumption and duplication of imports; however there are shortages of technology and knowledge intensive projects as well as export production projects.

A large proportion of the economic and technological cooperation projects between provinces or cities and foreign countries is in light industry or food production. When it is in electronics, it is likely to be assembly line production of color televisions, cassette recorders, and ver's; furthermore we still need to rely on foreign sources for continuous supply of some raw

materials and spare parts. If we import high grade consumer production lines, it is entirely possible to accelerate the accumulation of funds and succeed with import substitution. But too much duplication in particular imports will inexorably lead to the following problems: (1) By using foreign exchange, instead of earning it, we will have difficulty paying our debts. (2) Similar commodities will compete with each other on the domestic market. Moreover, as the life span of many everyday consumer items are short and because variations and updated versions appear frequently, products in great demand today can quickly become obsolete. At that point those production and assembly lines will become a heavy burden. (3) Funds for important projects will be less. (4) If the prices of spare parts from abroad rises or supply comes to a halt, we will suffer severe losses.

2. When importing with an overeagerness for quick results, a buyers' market is easily created. Importing is a difficult and complex task. We must be extremely prudent in our dealings and avoid blindly engaging in the pursuit of quick achievements. Yet right now many counties and cities are actively importing and pursuing negotiations on a large scale. I feel there are many faults with this method. First it is quite easy to make the number of projects and their monetary value the goal during these negotiations while overlooking costs versus benefits. Furthermore, some of the enterprises participating in these talks are so impatient for success that they gather around one particular foreign company, turning the buyer's market into a seller's market. A smaller number of enterprises are worried about "missing an opportunity", so during the talks they squander foreign exchange, doing harm to the nation. Relevant data have shown that to date, exports of machinery and equipment from developed nations have largely been processed through credit arrangements, cash payments comprising only a small amount of the total. However, in our overzealousness, a good deal of equipment has been purchased entirely in cash, resulting in significant losses. Furthermore, it is really quite difficult to sufficiently discuss the complexities of importing in a brief 10-day conference. It is my understanding that many projects are finalized with foreign companies in several discussions before formal negotiations begin: the conference itself becomes just a formality for signing agreements. I believe that if we can change our importing methods, we can avoid pressures of time and location. We will grasp opportunities better and import discreetly, and thereby obtain results that are more ideal.

3. We lack an understanding of developments in science and technology abroad and often rely upon "enterprise impressions" when importing. Because many provincial and urban enterprises are not well informed about the situation foreign countries, the decision as to what to import is often made by a few domestic companies which have "impressions" about large or famous foreign companies. This often results in the seller requesting a higher price.

It should be noted that presently small and medium-sized enterprises control a certain amount of advanced technology. In recent years in the United States, half or more of the technological achievements were made by small and medium-sized companies. If we could visit such companies by going through a representative office of our government or our local friends, we could see what technologies these companies had to offer, select the more advanced ones,



and import them possibly at lower cost. In the end, the results, too, would be better.

4. The standard for "advanced" technology is ambiguous, making it difficult to avoid losses and being duped. Some enterprises as well as departments responsible primarily for import do not really understand trends in foreign technology or the standards for advanced levels of technology. Thus, during negotiations they often merely make generalized statements about wanting some "advanced technology" or "80's" technology or equipment. Such generalized requests amount to revealing to the foreign businessman that we know very little about the technology or equipment in question. We thereby put the other side in an advantageous position, and they may seize the opportunity to demand "advanced prices" while supplying us with obsolete goods. This is a common occurrence. Recently a Hong Kong magazine poked fun at the fact that China placed an order for an old model Japanese photocopy machine that had been out of production for 2 years: "Foreign products need not be new or good. The most important thing is to be the first to import it and it will snowball among China's masses until it becomes a wave. This gives some factories opportunities to sell obsolete production lines to China." These words should make us wake up.

5. Blindly having many people inquire about price results in many errors and few benefits. When importing we must inquire among different countries and companies about similar equipment and technology. We must earnestly compare prices, technological capabilities and delivery and only after that import the best. Without doubt we must adopt this method of "comparing the goods of three companies." Yet at present, many enterprises often blindly engage in excessive price inquiries. For instance, if a factory needs to import production line, it may simultaneously ask several units which have dealings with foreigners to inquire about the price. These units will then individually inquire among several foreign companies. Sometimes by coincidence these requests all end up at the same company. The belief that "more is better" when comparing prices only results in harm to us in various ways. First, flooding the world with price inquiries easily gives foreign companies the impression that we want to import large quantities of the particular equipment or technology. They seize therefore this opportunity to quote prices many times higher. Moreover, by making our price inquiries without ever getting back to the foreign companies causes us to lose respectability in their eyes. Furthermore the feasibility studies conducted by enterprises preparing to import more often not scientific or done in earnest. They merely consist of superficial reports. After importing, the enterprises may run into problems with maintenance, marketing, debts, forming complete sets of equipment, etc. This makes it impossible for them to realize the original purpose of importing. An even more common problem is the sole emphasis on importation while overlooking assimilation of the imported product.

Although the reasons for the previously mentioned problems are numerous, the main ones are the lack of unified management, a unified plan, and a flexible strategy. Thus in the future China must strengthen unified management of imports. Here are some concrete suggestions:

1. Experts should be assigned by the central authorities to form a unified import management organization. Its main functions should be: (1) To establish relevant principles and policies for importing. (2) To draw up an overall importation plan and determine the strategic projects. (3) to examine, approve and coordinate the importation plans of the various prefectures, cities and departments.

2. Imports must go through the authorized channels. The central authorities should assign units in charge of unified importing for the different categories of imports. These units will then bring together experts in the field (permanent or temporarily transferred) to handle imports of a particular category. The advantages of this system are: (1) Expertise will be employed to examine more deeply and comprehensively the international scientific and technological developments of the particular field and thus superior products will be chosen for import. (2) This method will prevent excessive dealings with foreigners, strengthen our position as the buyer, and allow us to take advantage of international competition among sellers. In this way, we may import technology and equipment we need under more favorable conditions. (3) With this method, import projects of the various localities and departments can be centrally weighed as to their importance and urgency. The interests of the whole country will be ensured and the macroeconomic benefits will not be adversely affected. Moreover, duplication of imports can also be effectively curtailed. This method will also be of value in organizing resources and in absorbing and assimilating imported technology and equipment and in developing new ones.

3. Fastidious attention must be paid to import tactics. On the one hand, we should strengthen unified management and the training of manpower so as to raise negotiation standards. At the same time, we must also diligently study various importing tactics, such as tightening controls domestically while relaxing controls in regard to foreign dealings and seizing opportunities (e.g., foreign economic crisis, shifts in industrial structure, and technological upgrading). We should also import based on first hand observations by S and T experts we station abroad or by representative offices of our government overseas. For the most highly sophisticated technology that we find difficult to import through normal means, we can adopt the method of "sending (exports) out and importing (things) in." We can dispatch experts overseas to cooperate with appropriate counterpart in researching and developing a particular technology; later we can import it. In many technologically advanced countries, it is often difficult to keep advanced technology a secret; moreover many technologies are changing with each passing day. Thus by establishing research and development organizations abroad, we can monitor these changing trends in developments as they occur. Furthermore, we can transfer the technology to China more easily, at lower cost, and in a timely manner. Beyond this, we should actively send people to participate in international economic and technological organizations through which they can obtain a large amount of valuable data on the world situation in economics and science and technology.

To sum up, the open door policy and active importation are long-term, fundamental national policies. As long as we squarely face the problems that

arise in importing, speedily study and adopt effective measures in scientific management, and place emphasis on importation methods we can surely obtain better results in importing.

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FOREIGN TRADE AND INVESTMENT

MINISTER DISCUSSES CHINESE-JAPANESE TRADE RELATIONS

Shanghai JIEFANG RIBAO in Chinese 12 Nov 85 p 1

[Interview given to a XINHUA reporter by Minister Zheng Tuobin [6774 2148 1755] of the Ministry of Foreign Economic Relations and Trade, on the prospects of Chinese-Japanese trade; date and place not given]

[Text] [Question] I would appreciate hearing your views on Chinese-Japanese economic and trade relations.

[Answer] With the normalization of Chinese-Japanese relations, economic and trade relations have continued to develop between the two countries. Last year, trade between the two countries amounted to \$12.73 billion, or one-fourth the amount of our foreign trade. China ranks fifth among Japan's foreign trade partners. Japan has twice offered us government loans (overseas economic cooperation loan funds) amounting to \$3.5 billion at the annual interest rate of 3 to 3.5 percent for 30 years. It has, on two occasions, offered energy resources loans amounting to \$4.4 billion at the annual interest rate of 6.25 percent for 15 years. It has also offered us assistance on a limited scale with no compensation. We have signed five contracts with Japan for the cooperative development of offshore petroleum and Japan has made investments amounting to \$800 million. From 1979 to 1984, Japanese businessmen have invested \$123 million in the establishment of 57 Sino-Japanese joint enterprises in China. Thus, Chinese Japanese economic and trade relations may be said to have been progressing smoothly in recent years.

[Question] What are the principles in regard to the development of Chinese-Japanese economic cooperation?

[Answer] China and Japan are close neighbors. Although we have a vast market and abundant natural resources, we are relatively backward economically and technologically. On the other hand, Japan, while short of natural resources, is more economically developed and has a higher technical and management standard. Economically, the two nations can supplement one another. We should develop friendly and cooperative economic and trade relations in line with the spirit of the Chinese-Japanese joint statement and the four principles of peace and friendship, equality and mutual benefit, mutual trust, and long-term stability.

[Question] China imports large amounts of Japanese commodities every year. What, after all, is the quality of Japanese products?

[Answer] In importing commodities and technologies to meet our needs, we normally compare the quality of the products, prices, and services offered by the various countries and regions. Our consumers import large quantities of Japanese products which we find competitive. Naturally, there are times when the quality of Japanese products, like that of products we import from other countries, falls short of that stipulated in the contracts. For instance, as has recently been reported, the motor vehicles made by Mitsubishi and color television sets made by Orion have been found to be defective. It should be realized that quality is one of the major conditions necessary to compete in the international market. Generally speaking, most firms put a high premium on quality. Once a problem has been discovered, most foreign businessmen are quick to deal with it to protect their own interest and prestige. The two incidents mentioned above have been basically dealt with satisfactorily and at no loss to us. There are, however, instances where we have suffered losses when our people, lacking in knowledge and experience in foreign trade and failing to inspect import commodities according to the terms stipulated in the contracts, have failed to file damage claims in time. This is something to which the concerned parties should direct their attention.

[Question] One outstanding problem in Chinese-Japanese economic and trade relations is the considerable trade imbalance in favor of Japan. What are your views on this problem?

[Answer] China suffered a trade deficit of \$2 billion in 1984 and \$2.3 billion during the first half of 1985. This trend is expected to continue.

The increase in trade deficits during the last 2 years may be attributed to a number of factors. On the one hand, there is an increasing demand in China for Japanese raw materials, machinery, equipment, and chemical and industrial products. Needless to say, due to defects in our guidance plan relating to imports, there has been some duplication in our imports and too rapid an increase in the import of durable consumer products. We have already taken, or are about to take, the necessary remedial measures. On the other hand, as regards the structure of commodities, we export a considerable amount of energy resources (petroleum and coal), agricultural products, textiles, and aquatic products whose added values are too low. At the same time, most of the imported products consist of machinery, steel, and iron whose added values are high. Furthermore, the restrictions imposed by Japan on some of our export commodities, such as raw silk, silk and satin, and certain subsidiary agricultural products, have also made it difficult for us to increase our exports.

Foreign trade involves both imports and exports. The amount of imports depends on the amount of exports. With a view to achieving an international balance of payments, many countries, particularly those in the Third World, consider it imperative to achieve a basic balance of payments. However, due to limitations imposed by the supply and demand situation in bilateral trade, there are many instances where deficits occur. Western nations, too are



faced with the deficit problem. China is a developing, while Japan is a developed country. There is a vast volume of trade between the two. However, if the deficit continues to increase in Chinese-Japanese trade, China will not be in a position to sustain the loss, and the development of long-term and stable bilateral trade will be adversely affected.

The satisfactory solution of this imbalance calls for joint efforts by both sides. First of all, China must vigorously develop its production, improve as soon as possible the quality of its products, increase its export channels, improve its transportation capability and go a step further in meeting the demands of the Japanese market. At the same time, it is hoped that Japan will adopt a positive attitude in increasing the import of the traditional commodities from China. What Japan can do with relative ease in the near future is to continue to increase the import of petroleum and coal from China. It is also hoped that Japan will coordinate with our efforts to develop the export of industrial finished products to increase our export capability.

[Question] What are your views on the prospects of developing Chinese-Japanese economic and trade relations?

[Answer] Conditions are favorable for the development of economic and trade relations between the two countries and such relations will continue to be developed without interruption. The development of Chinese-Japanese economic and trade relations will not only promote understanding and closer friendship as well as the prosperity and stability of Asia and the world. The prospects of such developments depend, however, on present and future efforts made by the two governments and the concerned enterprises of the two countries. In any case, there is no question that such relations can only be developed on the basis of the principles of equality and mutual benefit.

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## FOREIGN TRADE AND INVESTMENT

### ECONOMIC COOPERATION WITH BRAZIL GROWING

Beijing GUOJI SHANGBAO in Chinese 23 Dec 85 p 3

[Article by Zhang Baoyu [1728 1405 3768]: "Rapidly Growing Economic and Trade Cooperation Between China and Brazil"]

[Text] Brazil is the largest Latin American country. The development of economic cooperation between China and Brazil is of great significance for the South-South cooperation and for the promotion of the joint economic development of the two nations.

#### 1. Broad Prospects for Bilateral Trade

Since diplomatic relations were established between China and Brazil in 1974, there has been a very rapid development of mutual trade. The total amount of bilateral export and import trade in 1983, according to Brazilian statistics was \$776 million, a 84-fold increase since 1976. Last year the trade between the two countries amounted to \$800 million and will reach \$1 billion this year. Brazil has by now become an important trading partner for China in Latin America. Especially after the visit to China last year of the Brazilian president and this year's visit to Brazil of Premier Zhao, there has been an upsurge of a kind of "China-craze" in Brazil, and many entrepreneurs are seeking opportunities to develop trade with China. Brazil is already regarding China as one of its import trading partners.

Currently, an equilibrium is being maintained between Chinese and Brazilian exports and imports. In this trade, China's mainstay commodity for exports to Brazil is petroleum, of which 2,500,000 tons were exported last year, and for which an agreement covering the delivery of 3 million tons during this year has already been signed.

Brazil is also in need of Chinese raw materials for the chemical and pharmaceutical industry, peppermint oil, products of the light and handicraft industries, and some machinery items. Brazil requires, furthermore, large quantities of coking coal, a product that China should progressively develop.

Brazil's mainstay commodity in its exports to China are steel products, of which 600,000 tons were shipped last year. China, moreover, has a need for pig iron, iron sand, timber, chemical fiber, pulp, tobacco leaf, and aluminum

produced in Brazil. Brazil manufactures trucks, passenger cars, electric refrigerators, washing machines, and TV components, mainly using American, West German, Japanese, and Dutch technologies; since they are of good quality and low in price, they show good competitiveness, and China is also importing some of these items.

## 2. Active Development of Economic and Technical Cooperation

Both China and Brazil have vast territories and abundant resources. Both countries have highly developed industries, and a large potential for economic and technical cooperation. Brazil has already instituted a policy of opening to the outside world and absorbed advanced technologies from various countries on a broad scale. There have been comparatively few restrictions by the developed countries on the transfer of certain advanced technologies to Brazil. Because of the early absorption of advanced technologies, Brazil has attained a fairly high level of technology and accumulated a certain amount of experience in such fields as hydropower, nuclear power, shipbuilding, motor vehicles, offshore oil, harbor construction, highways, and bridge construction.

Both parties are currently carrying out cooperation in such projects as: the Manaus plywood plant, China's first cooperative enterprise in Brazil; the joint contract of the China Civil Engineering Corporation and the Brazilian Mendes Company for railway and expressway construction in Iraq; the Brazil Petroleum Co's participation in the exploration of China's South Sea petroleum; on the basis of the first round of cooperation, it is now actively participating in the second round of open bids.

Projects that are now being negotiated or have already been started are: the Chinese Ministry of Metallurgical Industry is discussing with Brazil the opening of an iron mine in Brazil; Brazil will participate in Chinese hydropower station consultative services; Brazil is also preparing to engage with China in a joint production of telephone equipment, in an instant coffee packaging plant, and in a zipper manufacturing plant. The Chinese side is already carrying out testing and actively working toward the implementation of the projects.

Additional items for which favorable conditions for mutual cooperation exist on both sides are: harbors and highways, shipbuilding, motor vehicle production, coal, gemstone processing, as well as communications equipment, microcomputer technology, nuclear technology, duplicating equipment, teleprinter equipment, ethyl alcohol manufacturing technology, vegetable fuel oil, building materials, and in the field of architecture.

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## FOREIGN TRADE AND INVESTMENT

### CITIC'S ACCOMPLISHMENTS, PLANS FOR 1986

Beijing GUOJI SHANGBAO in Chinese 23 Dec 85 p 1

[By reporter Li Bida [2621 3968 6671]: "Xu Zhaolong, president of the China International Trust and Investment Corporation, Stressed the Need Next Year To Energetically Seek the Use of Foreign Capital and Promote Technology Imports"]

[Text] "In 1986 the China International Trust and Investment Corporation [CITIC] will, in compliance with the general and specific policies of the state and the state plan, more effectively play its role as window to the outside world, energetically perform its various professional duties, and do its utmost to raise economic results, in order to make a greater contribution toward the promotion of technological progress in China's enterprises, toward the expansion of the exports of our products, and to enhance capabilities for earning foreign exchange." This is the statement made by Xu Zhaolong [1776 2507 7127], president of CITIC in his report at the sixth meeting of the board of directors on 14 December.

Xu Zhaolong said: Since CITIC began operations 6 years ago, it has developed into a comprehensive enterprise, integrating activities in the fields of production, finance, trade, and services. From its inception until now, CITIC has made investments in 140 projects, and about half of these new enterprises have started up production and are in business. To encourage technological transformations and technological progress in China's enterprises, CITIC's leasing organization last year organized almost 400 projects, and this year another 300 projects might be added. CITIC also accepted commissions from enterprises and, using funds allotted by the state for technological transformations, acted as agent in the importation of technical equipment. In the last few years, the items that formed the subjects of these commissions have rapidly increase, about 300 items having been transacted this year. During last year, CITIC has actively launched financial business activities and floated three public bond issues, namely in January in Japan an issue of Y30 billion, in August in Hong Kong an issue of HK\$300 million, and in September in the FRG an issue of DM150 million. Preparations are now being made for another issue in Japan.

As to next year's work, Xu Zhaolong said: all of CITIC's business activities must comply with the general and specific policies of the state and the state's macroeconomic plan and have to consider the economic results. We must conscientiously adhere in our actions to the spirit of the central authorities

with regard to promoting technical progress, expanding exports of our products, and raising our capability to earn foreign exchange. We must energetically seek to utilize foreign capital for investments in our domestic enterprises. It is around this central task that we shall launch our financial business activities, carry on domestic and foreign trade as well as our consulting services. The focus in all areas of investment is to be the development of raw and semifinished materials industries, including such industries as iron and steel, nonferrous metals, construction materials, and petrochemical products, with consideration also to be given to machinery, electronics, light and textile, as well as the foodstuffs industries. In overseas investments we must follow a policy of "South-South cooperation," giving priority to cooperation with the Third World. In determining projects for investment, we must consider whether the project in itself has vitality and is economically profitable in the international market.

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## FOREIGN TRADE AND INVESTMENT

### IMPORT LICENSES REQUIRED FOR STEEL

Beijing GUOJI SHANGBAO in Chinese 23 Dec 85 p 1

[Text] The Ministry of Foreign Economic Relations and Trade [MOFERT] recently issued a notice to the effect that as from 1 January 1986 the importation of steel materials (including all types of steel materials, steel billets, scrap steel, ships for scrapping) shall be controlled by licensing.

The notice states that for steel materials required to be imported by any locality or department in China, an application must be directed in advance through the China National Metals and Mining Products Import Export Corporation (METIMPEX) to MOFERT, and a commodity import license must be obtained. The notice furthermore states that orders abroad for these materials shall only be placed by METIMPEX alone (orders for steel billets and scrap steel required by the Ministry of Metallurgical Industry for its own use may be placed abroad by the China National Metallurgical Import Export Corporation). The customs service shall check shipments and release them on the basis of commodity import licenses and other relevant documents.

If, under special circumstances, small quantities of steel materials are to be bought through another import-export corporation for the urgent use within a locality or department, approval must be obtained in advance from MOFERT, and only after obtaining a commodity import license, may an order be placed abroad. The import price must be coordinated with METIMPEX.

Excepting the two SEZs of Xiamen and Shantou, all SEZs and the administrative district of Hainan, when importing steel for their own use, and if shipments will be unloaded at the port of the district in question, are not subject to shipment quotas. In such cases orders may be placed abroad by an import-export company designated by the local people's government and on record with MOFERT, at prices at which METIMPEX is transacting business. However, prior to placing order, a commodity import license must be obtained from MOFERT for an annual allotment, without mention of type of commodity or amount of money, based on the annual import plan quota transmitted down by the State Planning Commission and MOFERT. All steel material that has been imported for own requirements by the various SEZs and the Hainan administrative district must not be resold outside the SEZs or outside the Hainan administrative district.

Steel materials imported by duly approved Chinese-foreign joint management enterprises and exclusively foreign-financed enterprises, for use in their own production, may be ordered by them directly from abroad, providing that the price has been coordinated with METIMPEX, or they may also entrust the importation to METIMPEX or to an import-export corporation designated by the local people's government and on record with MOFERT. However, in all cases a commodity import license must be obtained from the special agency office at the nearest port, based on the approved joint venture contract (which must mention the relevant conditions that make it necessary to import steel materials) or the plan that includes the need for imported steel in the production process, approved by the organ in charge of such approval, together with the shipment quota (any joint venture which imports less than 500 tons per year need not have a shipment quota).

For steel material imported under approved contracts for processing imported materials, a commodity import license need not be obtained if the processed materials, for which the raw materials were imported, are all sold abroad. The customs may follow the procedure for the importation of material for processing in checking and releasing such imports. If any of the above-mentioned steel material for some reason is diverted to domestic sale, a commodity import license must be supplemented, according to the general procedure for importing steel materials. Small amounts of steel which have to be imported for the installation or reinforcement of machinery or equipment, imported under a compensation trade contract, are exempt from commodity import license requirements if the amount is below one ton.

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## FOREIGN TRADE AND INVESTMENT

### MEASURES FOR IMPROVING OVERSEAS LABOR SERVICES

Beijing GUOJI SHANGBAO in Chinese 23 Dec 85 p 2

[Article by Ma Jianchun [7456 1696 2504]: "Employ Effective Measures To Further Develop China's Contracting for Overseas Projects and Overseas Labor Services"]

[Text] During the Sixth 5-Year Plan, China has made great progress in contracting for overseas projects and in labor service cooperation abroad. Up to now, China has signed contracts with more than 70 countries for more than 2,000 overseas construction projects and overseas labor service cooperation; these contracts involve an amount of over \$4.6 billion. Last year, China jumped to 10th place in the world in the total value of such contracts. More than 50,000 of our personnel are working in overseas construction projects and labor services, accounting for a total of 160,000 person-times during the last few years. Under the conditions of fierce competition in the international contracting and labor service market, the contracting and labor service contracts signed by China increased at the average growth rate of over 80 percent, which shows a very gratifying picture of thriving vitality in this branch of business.

The following are the main features of China's contracts for overseas construction projects and labor services during the period of the Sixth 5-Year Plan: 1) A continuous expansion of countries and territories. China has by now established cooperative relations with more than 70 countries and territories in Asia, Africa, Europe, Latin America, and Oceania, initiating contracts for engineering projects and for labor services in these countries. 2) An increasingly favorable reputation for the accomplishment of engineering undertakings and for competitiveness. Up to the beginning of this year, the amount involved in contracts for engineering project has grown to a 90.3 percent proportion in the total amount for all contracting and labor service contracts, and some of these contracts are for projects of over \$100 million. 3) China is now branching out into diverse trades and industries. It is now not only able to undertake all kinds of engineering projects overseas (such as house construction, highways, bridges, dams, irrigation, water supply and drainage, power stations, breakwaters, etc.), but also is able to provide skilled workers and managerial staff to engage in all kinds of production, and to dispatch seamen, cooks, and others to work in these cooperative labor services. 4) A continuous growth in capabilities. At present, over 50 Chinese companies are engaged in international economic cooperation; their sphere of

business operations is continuously widening. The projects undertaken by some companies have even won awards in work-related international contests.

Developing the business of contracting for overseas engineering projects and cooperative labor services is an important way to increase foreign exchange earnings. China ranks high in the world as far as manpower resources are concerned, manpower, furthermore, that has a certain level of technical skills. Much of China's equipment and materials is also very suitable for the requirements of the international labor service market. Developments in the last few years have demonstrated that it is quite possible to further expand China's business of contracting for engineering projects and for cooperative labor services. However, we must also realize that the value of all the contracting currently undertaken in the international market exceeds \$100 billion, and that 11 million people work abroad under such contracts, which makes China's share still only a very small one. Future competition will become much fiercer, and demands will be higher, so that the further expansion of China's business of contracting and rendering labor services will still face many difficulties, making it necessary to adopt further effective measures.

First, we must implement the principles of "observing contract obligations, guaranteeing quality, working for small profits, and respecting equitableness." In undertaking engineering contracts we must stress working for small profits, guarantee the quality of our engineering work, and in the international market for contracting and labor services we must further raise China's good reputation and influence.

Second, at the same time as we consolidate whatever markets we have gained, we must open up new markets. China has by now laid a very good foundation with its engineering contracts and labor services in the Middle East, North Africa, and other areas, but there is still much leeway and further development and consolidation is necessary. We must take advantage of all favorable conditions in China and abroad, open channels, and as we consolidate and expand the old markets, we must energetically open up new markets in Africa, Latin America, Southeast Asia, and certain developed countries. This is the only way in which we can achieve further development on a larger scale for China's business of contracting for engineering projects and for labor services.

Third, we must energetically develop cooperative labor services. The capacity of the current international labor service market is very large. We must take full advantage of China's abundant manpower resource and dispatch labor service personnel, depending on the varying conditions in the various countries and territories. In the case of developed countries with manpower shortages, we must give priority to the supply of labor services. In the case of the developing countries we must supply manpower as well as technologies and equipment, thus gradually expanding the scope of our contracting in the direction of technical assistance.

## FOREIGN TRADE AND INVESTMENT

### ANSWER TO QUESTION ON FOREIGN ECONOMIC CONTRACT LAW

Beijing GUOJI SHANGBAO in Chinese 23 Dec 85 p 2

[Article by Sun Wenqi [1327 2429 0796] and Yao Xiaoming [1202 2556 2494]: "Special Requirements of the Foreign Economic Contract Law With Regard to the Establishment of Certain Contracts"]

[Text] Question: What are the special requirements of the Foreign Economic Contract Law (FECL) with regard to the establishment of certain contracts?

Answer: Article 7 of the FECL stipulates: "Contracts for which the laws and administrative laws and regulations of the PRC require approval by the state become valid only after such approval has been obtained." This mainly refers to contracts for the operation of Chinese-foreign joint venture enterprises, for the operation of Chinese-foreign cooperative management enterprises, and for Chinese-foreign cooperative exploration and development of natural resources. Comparing these contracts with other foreign economic contracts, especially comparing them with traditional international contracts for the purchase or sale of goods, they have special characteristics, mainly manifested in the following: 1) They are long-term contracts with a strong tendency of continuity. Even if for shorter terms, they are for a number of years, but then can be for as long as several decades. For instance, some of China's Chinese-foreign joint venture contracts are for as long as 30 years. During the currency of the contract, the cooperation between the two parties and the business activities of the enterprises are continuously carried on. This demands that the provisions of the contract can stand the test of long periods of time. 2) The contracts are complex in substance and wide-ranging. Frequently, apart from the basic contract, there are many additional special contracts attached, as, for instance, contracts for the purchase of equipment, the transfer of technologies, the construction of an engineering project, financial loans, and provisions regarding the management of the business operations. These special contracts form an integral part of the main contract. This type of contract is furthermore closely bound up with various sectors of the Chinese economy, for instance, in the use of land, the supply of raw and semifinished materials, fuel, motive power, the marketing of products, and in imports and exports. In all these activities there is of course close contact with many departments and enterprises in China. The conclusion of contracts must therefore be conducted with great care, and in a circumspect and comprehensive way. 3) The contracts contain strong policy and legal substance. The content of many of these contracts directly touch on



various aspects of China's policies and laws regarding investments, foreign trade, pricing, taxation, foreign exchange receipts, labor management, etc., and in some cases even relate to the native law of the foreign party. Conclusion of these contracts, therefore, is beset with many policy and legal questions; they require not only a specialized technical knowledge but also familiarity with the relevant policies and laws. 4) A close connection between the economic interests of the two parties. Compared with other foreign economic contracts, the economic cooperation established by this type of contract combines the economic interests of the Chinese party and of the foreign party much closer together. It is therefore necessary to make a thorough study of the feasibility of the cooperative project and to fully consider the immediate and long-term economic interests of the parties.

In view of the above-stated peculiarities, the FECL lays down certain special demands with regard to these contracts. Apart from the need of the two parties to reach a meeting of minds in their negotiations and to have signed the agreement, the contract is only validly concluded after its approval by the relevant department of the Chinese government. Moreover, the assignment of these contracts (unless specifically provided for) and significant changes are valid only if approved by the agency that has approved the contract in the first place. The purpose of this provision is, on the one hand, to ensure that the construction project defined in the contract conforms with the developmental needs of China's national economy and that the articles of the contract are in accord with China's policies and legal provisions. Another purpose is to ensure that the contract is such that it can receive the support of the relevant departments of the Chinese government, so that the two parties will attain the hoped-for economic results in the smooth performance of the contract.

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FOREIGN TRADE AND INVESTMENT

PETROCHEMICAL EXPORTS DOUBLED DURING 6TH 5-YEAR PLAN

Beijing GUOJI SHANGBAO in Chinese 6 Jan 86 p 1

[Report by special correspondent Shi Hua [4258 5478]: "Last Year Petroleum and Petrochemical Exports Increased Almost 20 Percent; Total Amount of Exports More Than Doubled During Sixth 5-Year Plan"]

[Text] The total imports and exports of petroleum and petrochemical products handled by the China National Chemical Import and Export Corporation [SINOCHEM] during 1985 amounted to \$10.9 billion, which accounted for one-fifth of China's total imports and exports and yielded 3.8 billion yuan of profits turned over to the treasury. The amount of imports and exports showed an increase of 4.9 percent over the preceding year. In this figure, exports account for \$7.4 billion, an increase of 18 percent over the preceding year, and account for more than one quarter of the total amount of Chinese exports. This corporation takes first place among all the many Chinese companies that are authorized to conduct imports and exports, and has once more joined the ranks of the world's large corporations. This according to an announcement by Zheng Dunxun [6774 2415 6064], general manager of SINOCHEM, at the conference of all branch managers of the corporation.

In summing up the work of the said corporation during the period of the Sixth 5-Year Plan, Zheng Dunxun said that SINOCHEM again achieved very gratifying successes during the Sixth 5-Year Plan. The cumulative amount of foreign exchange created by exports during these 5 years amounted to almost \$30 billion, which was 1.6-times the cumulative amount achieved during the 5 years preceding the Sixth 5-Year Plan, the export increases averaging out at an annual 8 percent, thereby laying an excellent foundation for the doubling of output value by the year 1990. In these 5 years, the variety of export products increased from somewhat more than 300 to more than 700, with exports going to more than 130 countries and territories. The head office and branches of SINOCHEM have established sales agency relations with more than 300 firms in more than 70 countries and territories all over the world, and maintain business contacts with more than 10,000 customers in the world, which indeed constitutes an appreciable initial marketing network. To further broaden its markets abroad, the head office of SINOCHEM established during these 5 years independent companies, joint-venture companies, and agency offices in Japan, the United States, the FRG, France, Panama, Brazil, Malaysia, Singapore, and Hong Kong, thereby building up an overseas establishment of initially considerable proportions.

Speaking of the tasks for 1986, he said that the head office and all branches of SINOCHEN will continue this year the policy of revitalization, opening up and reform, centered around efforts to raise economic results, to increase by every possible means the sources of export commodities, and by exerting ourselves to fulfill and overfulfill all our various tasks. For this purpose we must relentlessly pursue work in three respects: sources of goods, exports, and economic results. As regards the sources of goods, we must continue to employ such effective methods as having imports nurture exports, undertake the processing of imported materials, etc., to resolve certain definite problems experienced by our manufacturing enterprises, and thereby increase the sources of marketable commodities. We must strengthen investigation and research, energetically develop new products, accelerate improvements and updating of products, select several highly promising factories that possess sound foundations and good adaptability as experimental units for specialized export production, to explore ways for the establishment of an export production system for our foreign trade. As to the direction of our exports, we must energetically launch replacement of imports by exports, effect an integration of imports with exports, conduct barter trade, entrepot trade and trade on the principle of reciprocity, in order to open up all international markets in an active, enterprising spirit.

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## FOREIGN TRADE AND INVESTMENT

### CHINESE CRAFTS EXHIBITED IN USSR FOR FIRST TIME IN 32 YEARS

Beijing GUOJI SHANGBAO in Chinese 6 Jan 86 p 3

[Article by Jin Zhigang [6855 1807 0474]: "Ties of Friendship; Sidelights on the Exhibition of Chinese Handicrafts in the Soviet Union"]

[Text] The third Soviet Exhibition of Public and Domestic Commodities was held in Moscow in September, 1985. After a hiatus of 32 years, China participated again for the first time in a Soviet exhibition, a fact which caused a stir in Moscow. The Chinese handicraft articles were awarded an honorary diploma at the present exhibition.

Almost 1,000 items (sets) of more than 20 categories of goods were exhibited this time, comprising ivory and jade carvings, lacquerware, feather pictures, trichromatic glazed pottery of the Tang Dynasty, ceramics, cloisonne, drawnwork and articles braided from straw, willow twigs, bamboo, and rattan.

The Soviet people were extremely interested in the Chinese handicraft articles. Large crowds gathered in endless wonderment in front of the cabinets showing such high-grade handicraft items as the ivory ball in 32 independently moving layers, the exquisite carved jade perfumer, and the perfectly realistic "eight horses" stone carving, and people never stopped asking the attendants about the way these articles were made and conditions of their production. They voiced their surprise that there are such exquisite handicraft products in the world.

The various machine-made and hand-produced embroideries, hand-woven articles, and crochet garments at the drawnwork display attracted many viewers. Many enquired where one can buy these beautiful drawnwork articles. Some even left their addresses, asking the attendants to send them some of the articles. Many viewers also stopped in front of the display and drew sketches of a tablecloth which had caught their fancy, and studied the workings of the crochet garments. One young person actually squatted on the floor for 30 minutes to finish the sketch of a tablecloth.

The traditional Chinese lacquered furniture was also much admired by the Soviet people; especially after they came to know the production and manufacturing process, their interest was greatly aroused, and they expressed the hope that one may be able to buy a set of Chinese lacquered furniture in the Moscow market in the not too distant future.

It was particularly amusing to see that soon after the opening of the exhibition, two Soviet lady-teachers, who could speak Chinese, made a bet of 10 rubles in an argument about the raw material of the Chinese imitation-jade artificial flowers in a bowl. One believed it to be of plastic and the other believed it to be of glass. The Chinese attendant, as an exception, opened the display cabinet and let them actually feel the material. When they discovered that it was made of glass, the loser still found it hard to believe and showed herself unconvinced. The imitation flowers in a bowl, realistically produced from glass, was a real eye-opener for many viewers.

In summary, the exhibition of Chinese handicraft articles left a deep impression on the many Soviet viewers. The Soviet press and radio received many phone calls and letters from viewers demanding the importation of Chinese commodities, some viewers even demanded the opening of Chinese stores in Moscow or other Soviet cities. Chinese handicraft articles, like a tie of friendship, established a link of good feelings between the Chinese and the Soviet peoples.

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FOREIGN TRADE AND INVESTMENT

GREATER VARIETY NEEDED IN TEXTILE EXPORTS TO USSR

Beijing GUOJI SHANGBAO in Chinese 23 Dec 85 p 2

[By reporter Feng Tuo [7458 7474]: "Twelve Enterprises Awarded Prizes for Textile Exports to the Soviet Union and Eastern Europe"]

[Text] Twelve textile enterprises, among them the Shijiazhuang Printing and Dyeing Plant No 1, the Shanghai Printing and Dyeing Plant No 3, the Beijing Qianjin Cotton Mill, and the Changzhou Corduroy Factory, were awarded prizes by the China National Textile Import Export Corporation (CHINATEX) at a Ceremony held on the 21 December at Shijiazhuang. The reasons for the awards were that these factories had maintained high quality in their products exported to the Soviet Union and to Eastern Europe, that they had been punctual in deliveries according to contract, and because of the contribution they had thus made to China's foreign trade.

China has always attached importance to maintaining the quality of textiles exported to the Soviet Union and to the East European countries. CHINATEX explicitly stipulates that all products exported to the Soviet Union must pass inspection by the commodity inspection organs. Products that on inspection are below standards must not be exported. Because of their high quality, our textile exports are warmly welcomed by the peoples of the Soviet Union and of the countries of Eastern Europe. An executive in a relevant Soviet department said approvingly that the large-scale importation of Chinese textiles concluded the era when the Soviet people, old, middle-aged, and young, had to dress all alike. Hopefully, the Chinese will produce more printed cotton cloth to help the Soviet people dress better. On hearing this news, the factories of the Chinese textile organization were much encouraged, felt a greater sense of responsibility, and the large number of their staff and workers applied themselves with greater zeal to the spinning and printing of cotton cloth in various designs and colors for export to the Soviet Union and the countries of Eastern Europe.

At the awards ceremony, the textile organization greatly propagated the achievements of the 12 advanced enterprises, in order to spur on all factories of the organization to raise the quality of textiles to even higher levels.

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## FOREIGN TRADE AND INVESTMENT

### NEW INSPECTION TECHNIQUE FOR SOVIET BLOC TEXTILE EXPORTS

Beijing GUOJI SHANGBAO in Chinese 6 Jan 86 p 1

[By Li Jian [2621 0256]: "An Innovation within the Reform"]

[Text] At the recent meeting held in Shijiazhuang on the nationwide interchange of technologies for the printing and dyeing of cloth exported to the Soviet Union and various countries of Eastern Europe and for the commendation of advanced techniques, this reporter learned that there is now a new method to guarantee the quality of export textiles. This new way is to have export standards formulated jointly by the production enterprises, the foreign trade departments, and the commodity testing departments, to carry out joint inspections, and to take great care of good quality. Some call this new method, which has never been tried before, an innovation within the reform.

In 1983 the Soviet Union resumed its imports of Chinese cotton cloth, importing in that year 2,040,000 meters. In 1984 the Soviet Union was in fourth place among countries taking our export textiles, which in 1985 reached 60 million meters. This year exports of pure cotton cloth to the Soviet Union increased by more than double compared with last year, accounting for half of its total exports from China. This huge quantity is the largest volume ever exported since the founding of the PRC.

In the last few years, the relaxation of quality requirements in certain factories has had an adverse effect on the reputation of our cotton cloth. How can we possibly have Chinese textiles stand their ground in the markets of the Soviet Union and of the East European countries? The China National Textiles Import Export Corporation called special trade meetings, commodity by commodity, participated in by three parties: the industrial departments, the foreign trade departments, and the commodity inspection departments, to solve the quality problem, article by article. Last year between August and December four specialized meetings were held in Beijing, Suzhou, Bengbu, and Shijiazhuang on the question of exports of velveteen, yarn-dyed fabric, corduroy, and cotton prints. In these specialized meetings: 1) Uniform export standards were formulated; 2) Quality appraisals and comparisons of actual material were carried out, also commending items of advanced quality; 3) Joint inspection groups were set up from among the three parties: the manufacturers, the foreign trade departments, and the commodity inspection departments. By now, a nationwide velveteen joint inspection team, a yarn-dyed fabric joint inspection team, a denim joint inspection team, a corduroy

joint inspection team, and a cotton print joint inspection team have been set up. This was a complete change of the traditional system of the past when manufacturing enterprises only concerned themselves with production, when the foreign trade departments only concerned themselves independently with concluding transactions, and the inspection departments went about their inspections with total unconcern. The three parties, the factories, foreign trade departments, and the commodity inspection department, jointly formulated export standards and carried out joint inspections. This type of horizontal linkage and the joint concern for the quality of export products is an innovative move in the reform. Its advantages are that the manufacturing departments are informed of market conditions abroad and the demands of customers, so that they will manufacture according to international standards and international fashion trends, that the foreign trade departments will understand domestic production levels, and that the commodity inspection departments will maintain proper checks and render good service. It is a method that will be of great assistance in raising the competitiveness of Chinese products in the international markets.

The increase in the volume of cotton cloth exported to the Soviet Union and the East European countries, the increase in designs, colors and variety, and the strict demands as to quality are, on the one hand, exerting great pressure on export operations, but, on the other hand, provide an impetus for the development of our textile industry, promoting the improvement and updating of products, and raising the competitiveness of its products. Currently, the standards are high and demands are strict in many factories manufacturing export commodities, and they exert great efforts, striving to attain international levels with their products. The July 1 Printing and Dyeing Mill in Xinjiang Province, though working for exports only since 1984, produces cotton prints that are in quality among the best throughout the entire country. In 1986 as far as patterns of cotton prints for export to the Soviet Union are concerned, Jiangxi's goods were preferred by 69 percent, rating them best in the country. From Hebei Province, the worsted sateen, the "shi tao bai" fabric, and the "tiao li hua" fabric were called the "three golden flowers" by the Soviets.

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CSO: 4015/677

## FOREIGN TRADE AND INVESTMENT

### CHINA UNDERTAKES SHIPPING CONSTRUCTION FOR EXPORT

Beijing RENMIN RIBAO OVERSEAS EDITION in Chinese 6 Dec 65 p 1

[Article by Xiao Guogen [5618 0948 2704]: "China Achieves International Standard in Shipping Construction for Export"]

[Text] This reporter has learned from the International Maritime Technical Academic Conference and Exhibition held in 1985 that China now possesses the technical and material capabilities for undertaking export shipping. While the international shipbuilding industry and market are in a state of depression, the major shipbuilders in China have, in the course of the last 5 years, undertaken from the Chinese Shipping Industry Co. the construction of 1.2 million tons of shipping for civilian use and three drilling platforms. Most of these projects have been completed. Shipowners who have placed orders come from the United States, Italy, the FRG, Norway, Romania, Poland, Singapore, Bangladesh, Liberia, and Hong Kong. The shipbuilding technology, quality, technique, and performance are all up to international standards.

Wang Rongsheng [3769 2837 3932], deputy general manager of the Chinese Shipping Industry Co., told the 1,000-odd Chinese and foreign guests who attended the International Maritime Technical Academic Conference and Exhibition held in Shanghai that the Chinese shipping industry was mainly concerned with the development of domestic shipping and that it was actively engaged in the export of shipping and diversified operations. China has adopted flexible methods in accepting new shipping construction orders for export. These flexible measures permit shipowners freedom of choice in shipping classification, design, and equipment, deferred payment according to international practice, the provision of loans on favorable terms and the acceptance of ships as security. Other requests made by shipowners are also given consideration and complied with if at all possible.

Several dozen kinds of equipment used on ships made in China, including diesel engines, diesel generating sets, deck machinery, propellers, and containers, are being exported to a number of countries and regions.

According to Wang Rongsheng, the Chinese Shipping Industry Co. has signed over 200 contracts with foreign countries involving the issuance of trade permits, technical cooperation, cooperative production, and the purchase of key technologies and equipment amounting to over \$50 million. The products manufactured through the use of such technologies and equipment have been approved by Chinese and foreign shipping inspection authorities.

Wang revealed that the Chinese Shipping Industry Co. has also engaged in joint enterprises with foreign businessmen, that the annual production of shipping in China has increased almost 100 percent during the last 5 years, that ships made with steel plates totaling 1.44 million tons were produced in 1984 and that there will be a further increase in 1985.

9621/7051

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FOREIGN TRADE AND INVESTMENT

ZHEJIANG FULFILLS 6TH 5-YEAR PLAN EXPORT QUOTA 1 YEAR EARLY

Beijing GUOJI SHANGBAO in Chinese 6 Jan 86 p 1

[By Wang Xin [3769 2946]: "Zhejiang Fulfills Sixth 5-Year Plan Export Plan 1 Year in Advance; Good Results in the Utilization of Foreign Capital and in Service Exports"]

[Text] Zhejiang Province made huge progress in its foreign economic relations and trade during the period of the Sixth 5-Year Plan. The norms of the Sixth 5-Year Plan for exports were overfulfilled 1 year ahead of time, and remarkable success was achieved in the utilization of foreign capital and in the economic and technical cooperation with foreign parties.

Export commodities from Zhejiang were in the past always transferred to such ports as Shanghai for export, as the province was rather late in starting its own operations. In 1980 the ratio of exports handled by the province itself in relation to the total amount of procurements of export goods was only 33 percent. During the Sixth 5-Year Plan the rate of such operations undertaken by the province itself rose year by year, and last year exceeded 88 percent. The amount of foreign exchange receipts increased from \$240 million in 1980 to \$870 million in 1985, an increase of 2.6 times. The assortment of export goods was increased from somewhat over 400 to more than 800 items, amounting to a doubling of the items. The countries and territories to which exports were shipped increased from somewhat over 80 to more than 120. The composition of export commodities was also improved. The proportion of heavy industry and chemical industry products rose from 15.45 percent in 1980 to 19.7 percent in 1985; the proportion of light industry and textile products declined slightly from 66.88 to 65.9 percent; the proportion of agricultural and sideline products declined from 17.67 to 14.4 percent.

In the utilization of foreign capital, up to the end of September of last year, the total amount of funds involved in contracts concluded in various forms for the utilization of foreign capital exceeded \$130 million, in this sum 56 percent were foreign capital. During the 5 years in question, approval was granted to establish 56 Chinese-foreign joint ventures, 56 Chinese-foreign cooperative management enterprises, and 102 cases of compensation trade. The large majority of investors used to come from Hong Kong and Macao, but this area has now been expanded to include over 10 countries and territories, among them the United States, the FRG, Italy, France, Japan, the Netherlands, and Australia. At the beginning of the Sixth 5-Year Plan, investments were made

in the handicraft industry, but the area of investments has been expanded to such industries and trades as machine building, electronics, textiles, construction, silks and brocades, light industry and the tourist industry.

A good start was also made in cooperative contracting work abroad. The total amount involved in contracting or subcontracting for engineering projects during the 5 years in question was \$36 million, with more than 3,500 persons working under these contracts. The engineering projects of these contracts were located in Iraq, North Yemen, Kuwait, and Libya. Good progress was made in foreign aid tasks undertaken by Zhejiang Province and in aid projects accepted from the United Nations. Because of the good achievements of the agricultural assistance team and the medical assistance team from Zhejiang Province working in the Central African Republic, President Kolingba, as head of state of the Central African Republic, bestowed on the heads of the teams the honorary medal of Central African restoration and to each member of the teams medals of knights of Central African restoration. In the last 2 years, Zhejiang Province also established tripartite joint venture enterprises with Canada, the United States, and Western Samoa.

Zhejiang Province possesses good preconditions for the development of foreign economic relations and trade. In the Seventh 5-Year Plan, Zhejiang Province will further respond to the demands of the international markets, make good use of its advantages, raise the quality of its products, guard its good reputation, and strive to continue to develop the various branches of foreign economic relations and trade at a growth rate in advance of that of the national economy.

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CSO: 4006/677

FOREIGN TRADE AND INVESTMENT

GUANGDONG LEADS NATION IN FOREIGN CAPITAL USE

Beijing GUOJI SHANGBAO in Chinese 6 Jan 86 p 1

[Unattributed article: "Guangdong First in the Nation in the Use of Foreign Capital; Last Year Used \$1 Billion"]

[Text] Guangdong Province used about \$1 billion of foreign capital last year, placing first in the whole nation.

In discussing the condition of foreign economic relations and trade of Guangdong Province, Yu Fei [0060 7378], the province's vice governor, summed it up in the words "very good." Export trade from this province made smooth progress, and up to the end of October last year, several corporations and areas had fulfilled their export quotas ahead of time, at an increase of 16.7 percent compared with the preceding year.

The export trade provides means and guarantees for the repayment of foreign investments, and the development of industrial and agricultural production provides the solid material foundation for foreign economic relations and trade. Last year, Guangdong's gross output value of industry and trade amounted to the huge sum of 65 billion yuan, an increase of 21.3 percent over the preceding year, and an increase of 90.5 percent over 1980. The average annual increase during these 5 years was 13.8 percent, exceeding the average growth rate of the country as a whole.

Guangdong Province was the first provincial region that instituted special policies. The whole province formed in its overall area an open trade zone of 970,000 sq km, which is 46 percent of the total area of the province, and with a population of 36 million, which is 58 percent of the total population of the whole province. Guangdong Province made full use of the advantages of opening up to the outside world to actively promote foreign economic relations and trade. By utilizing foreign capital and by importing advanced technologies, it accelerated the technological transformation of old enterprises and took the road toward expanding reproduction, mainly relying on internal intensification of the economy, thereby raising the productive capacity of industry and agriculture. The development of industrial and agricultural production in turn effectively furthered all work in connection with foreign economic relations and trade; both factors supplemented and complemented each other and brought out the best in each other. Presently, Guangdong is in the process of gradually forming a multilevel, multifaceted, and multifunctional

economic structure, which has opened itself up to the outside world, and which will lay the foundation for future economic developments and for future foreign economic cooperation.

The leading personality of Guangdong Province pointed out, if we want to continue in the future to consolidate and develop the supplying of commodities to the Hong Kong and Macao markets, and at the same time open up further markets in Japan, Europe, and the United States, we have to bring the special advantageous characteristics of an opened-up economic zone fully into play within our province, and at the same time also develop the huge potential in the mountainous regions of our hinterland.

Guangdong Province is determined to strive for the achievement during the period of the Seventh 5-Year Plan of a growth rate of annually 14 percent in its exports, and to reach a new climax in the utilization of foreign capital with the use of \$4.5 billion of foreign capital..

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FOREIGN TRADE AND INVESTMENT

NINGXIA'S FOREIGN TRADE ACHIEVEMENTS DURING 6TH 5-YEAR PLAN

Beijing GUOJI SHANGBAO in Chinese 6 Jan 86 p 2

[By He Zhaojun [0149 0340 6511] and Hu Andong [5170 1344 2639]: "Four Fundamental Changes in Ningxia's Foreign Trade During the Sixth 5-Year Plan"]

[Text] During the period of the Sixth 5-Year Plan, Ningxia achieved new successes in its foreign economic relations and trade. In all import-export activities such as the utilization of foreign capital, the importation of technologies, contracting for engineering projects abroad and cooperating in service operations, comparatively rapid progress was made. Especially in the last 2 years, since Ningxia initiated an overall opening up toward the outside world, with certain points of special emphasis, fundamental changes have been effected in four respects in the course of promoting foreign economic relations and trade.

Direct exports instead of the traditional transfer of goods for eventual export left the initiative for export expansion with Ningxia itself and increased Ningxia's own foreign exchange receipts through exports. Since 1980 the Ningxia trading enterprises negotiated directly with foreign parties, concluded transactions, arranged shipments, settled exchange, and in this way changed the business pattern of the past of merely transferring Ningxia goods to others for further action. This year for the first time, the Ningxia autonomous region sent out three marketing groups to proceed separately to Western Europe, Japan, Southeast Asia, and Hong Kong, to market export commodities to the value of more than \$5 million, a move that proved to be a complete success. Also in 1985, Ningxia for the first time participated in the 54th Izmir International Exhibition in Turkey, and also took up wide-ranging contacts with the Soviet Union, East European and other countries for the development of foreign economic relations. During the whole period of the Sixth 5-Year Plan, Ningxia supplied export commodities to the total value of more than 338 million yuan. The region itself exported directly and settled foreign exchange to the amount of over \$70 million. For 1985 alone it is estimated that the amount of foreign exchange receipts from exports will have increased 4.5 times compared with 1980. Up to the present, the Ningxia autonomous region has already established foreign economic relations with more than 50 countries and territories of the world, and has initially established a foreign sales network in its main foreign sales markets, in Western Europe, Japan, Hong Kong and Macao.



The assortment of Ningxia's export commodities comprises by now over 100 items. Among these, one item is a staple commodity that yields over \$10 million in foreign exchange; there are 4 or 5 items that bring in over \$1 million. During the Sixth 5-Year Plan, according to still incomplete statistics, Ningxia approximately doubled the number of newly developed export commodities compared to 1980. These new items have been able to find a place in the markets of Western Europe, Eastern Europe, North America, Southeast Asia, Hong Kong and Macao. Changes have also occurred in the composition of Ningxia's export commodities. The proportion of industrial and mining products reached to over 70 percent, which is different from past conditions when exports relied entirely on the traditional red (Chinese wolfberry), yellow (licorice root), blue (stone from the Alashan mountains), white (pelts of the "tan" sheep), and black (fa-cai) [an edible moss].

Opening up to the outside world has broken down Ningxia's protracted isolation of the past. The party and the people's government of the Ningxia autonomous region are conscientiously implementing the policy of opening up to the outside world. Starting out from the special characteristics of the region, especially relying on the political, cultural and religious influence of the Ningxia Muslims in the Islamic countries of the world, Ningxia repeatedly dispatched groups to visit other countries. A special group was that of Comrade Hei Boli [7815 0130 3810], chairman of the Ningxia Autonomous Regional People's Government, who led a friendship group of Ningxia Muslims during the first half of last year on a visit to Saudi Arabia and four other Islamic countries, and initiated friendly cooperative relations with these countries. In the last 2 years, by way of discussion meetings, Ningxia received the visit of more than 250 foreign businessmen or commercial officials from more than 30 countries and territories and signed 47 contracts with foreign and Hong Kong businessmen for such items as joint ventures and importation of technologies, such transactions involving an amount of \$28,330,000.

Progress of a breakthrough character was achieved in the political and cultural exchanges with the Islamic countries of the Middle East.

The utilization of foreign capital and the importation of technologies turned the economy of the Ningxia autonomous region from one of isolation into one of being open toward the outside world. During the Sixth 5-Year Plan, Ningxia used foreign exchange in various forms to the amount of over \$60 million, which was more than double the amount used during the Fifth 5-Year Plan. The foreign exchange was used for imports to places throughout the region of various kinds of scientific instruments and advanced equipment, including such key items of equipment as scientific research instruments and materials, instructional and medical equipment, steel products, timber, chemical fertilizer, agricultural chemicals, and equipment for production development, which served to promote the development in the field of industry, agriculture, transportation, scientific research, mathematics and medicine. The Wuzhong Plastics Bag Braiding Factory imported from the FRG a production line of 36 automatic-controlled plastic bag braiding machines and thereby revived an almost bankrupt small factory, which has now an output to the value of more than 10 million yuan. The Wuzhong Instrument and Meter Plant imported an automatic-regulating valve technology from Japan, thereby filling a gap that had existed in Chinese technology, and was presented by the State Economic

Commission the "total excellence award" for importing technology which transformed an enterprise.

During all of the Sixth 5-Year Plan period, but especially during the last 2 years, Ningxia used over \$12 million in the form of foreign investments or through compensation trade contracts. Ningxia has by now furthermore set up, with joint foreign and Hong Kong investments, the Chinese-American Ningjia Co. for the manufacture of agricultural, environmental, and meteorological equipment, an intra-prefecture leather company, and a Ninggang Electronics Company. Since its inception over 1 year ago, the Ningjia Co. has already manufactured more than 30 excellent novel monitors for use in agriculture, meteorological and environmental work. The said company's products are in great demand in many provinces, municipalities, and autonomous regions throughout the country. The Ningxia Yuquan Machine-Processed Mushroom Plant to be set up with cooperation with Italy as a compensation trade project--its production to be 800 tons of mushrooms annually--has already selected its location and will break ground and start building very soon. Ningxia is also actively endeavoring to get contributions from the United Nations Development Bureau and grants from overseas to the amount of more than \$30 million, for such engineering projects as the dune-fixing installations at Wangzhisha in the Liangji shelter forest and for the Ningxia Engineering College. These projects have had, or will in the future have, beneficial results; they are favorably commented upon by those who are the recipients of the aid, also by the Ministry of Foreign Economic Relations and Trade and other departments concerned.

A good start was made in concluding contracts for cooperative labor services and for engineering projects abroad. During the period of the Sixth 5-Year Plan, Ningxia, through the medium of the China National Construction and Engineering Corporation, dispatched work teams of altogether 1,200 persons to such African countries as Egypt and North Yemen, which created \$4 million of foreign exchange. The quality of the engineering work that had been performed under these contracts and the quality of the personnel that had been dispatched were extensively and favorably commented upon. To make full use of the Muslim connections of Ningxia, and to develop relations in the form of contracts for engineering projects and for labor services with the Islamic countries of Saudi Arabia, Egypt, Pakistan and Kuwait, the Ningxia autonomous regional people's government established a Ningxia Islamic International Economic and Technological Cooperative Corporation and set up administrative agencies in Egypt and other such countries.

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FOREIGN TRADE AND INVESTMENT

EXPORT COMMODITY TRANSPORT, ADMINISTRATIVE BUREAUS APPROVED

Beijing GUOJI SHANGBAO in Chinese 6 Jan 86 p 2

[By Zong Qingsheng [1350 1987 3932]: "State Council Approves Ministry of Foreign Economic Relations and Trade setting up a Transport Bureau and Administrative Bureau for Export Commodity Producing Bases"]

[Text] To strengthen macroeconomic administration of export trade transport and also to organize and promote the buildup and development of the Chinese export commodity production system, the State Council recently approved that the Ministry of Foreign Economic Relations and Trade establish a transport bureau and an administrative bureau for the export commodity producing bases.

The main functions and tasks of the transport bureau are: to implement in the shipment of foreign trade goods the specific policies that pertain to specific countries, furthermore, a policy of shipments by regularly scheduled steamship lines, and a policy of ship chartering; to effect the coordination of all planned shipments from the various foreign trade enterprises; to study and formulate rational shipping programs; to strengthen the planned administration of all foreign trade shipments; to carry out a system of "balancing two sectors with centralized control"; to effect a coordination in relation to the communications and transport departments.

The main functions and tasks of the administrative bureau for the export commodity producing bases are: to formulate and establish long-term and short-term plans for the export commodity producing bases; to put forward and set up tentative plans and actual measures for a system of foreign trade and export commodity production in industry and agriculture; to work out a policy and measures for the development of export commodity production; to draw up relevant laws, regulations, and measures; to organize, coordinate measures, and promote the establishment by all localities, all departments and the specialized national import-export corporations of export commodity producing bases; to work together with the finance departments in administering the export commodities producing bases and the economic measures of the specialized factories, also make all necessary disposition and render support; to be responsible for the economic interchanges between the export bases and for widest application of their work.

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FOREIGN TRADE AND INVESTMENT

ANHUI GOVERNOR DISCUSSES PROVINCE'S FOREIGN TRADE POTENTIAL

Shanghai JIEFANG RIBAO in Chinese 27 Nov 85 p 3

[Article by Zhang Yeping [1728 0048 1726] and Mao Yongxiong [3029 3938 7160]:  
"Wang Yuzhao, Governor of Anhui Province, Discusses Foreign Trade Potential  
Following Implementation of Open Door Policy"]

[Text] Wang Yuzhao [3769 6735 2507], governor of Anhui Province and leader of the Anhui Provincial Economic and Trade Mission, made a brief stopover in Shanghai following visits to the United States and Canada. Yesterday, reporters called on the governor at the Shanghai Mansion where members of the mission stayed.

During their visit abroad from 28 September to 21 November, Wang Yuzhao and members of the mission participated in celebrations marking the fifth anniversary of the establishment of friendly relations between Anhui Province and the state of Maryland and visited Baltimore, New York, San Francisco, and Los Angeles as well as Toronto, Ottawa and Vancouver in Canada. They participated in wide-ranging discussions with people in industrial, commercial, trade, and financial circles in the United States on projects of economic and trade cooperation and concluded nine contracts, seven agreements and five letters of intent totaling some \$30 million in transactions. It was also agreed that discussions will be held on a number of other projects.

Situated in the eastern part of the Chinese interior, Anhui Province, which is gradually being developed from the ground up, has already established economic relations with 134 countries and regions. In 1980, when Anhui established friendly relations with the state of Maryland, its trade with the various states in the United States was minimal. It was not until 1983 that it began to develop trade relations with a number of states in the East and the West. During the last 3 years, the amount of trade with the United States has totaled \$40 million, half of which consisting of exports from Anhui.

According to Governor Wang, the implementation of the open door policy has vitalized economic construction in Anhui. "On top of the existing import items and two-day trade," he said, "we have added a number of joint technological projects, including the joint operation of duck breeding and bird-feather-processing enterprises with an American company, the joint

construction with another Canadian company of the Tiandu Guesthouse in Huangshan and the Overseas Chinese Mansion in Hefei, etc., so that Anhui has taken a further step in opening up to the outside world."

Foreign friends have shown a great deal of interest in Anhui. Situated in the temperate latitudes, the mother earth of Anhui, traversed by the Chang Jiang and the Huai He, has abundant natural resources. Its reserves of such minerals as coal, iron, copper, and alumstone as well as grain, cotton, oils, and tea rank high in the nation. In addition, 18 million mu of barren hills and 8 million mu of water surfaces still await development. The tourist area centered around Huangshan, adjacent to the Kuangly scenic area and the tourist resorts of Suzhou and Hangzhou, is blessed with both natural scenery and cultural attractions. Wang Yuzhao said that the supply of several copies of videotapes of "Beautiful Anhui" and "Huangshan" and color pictorials of Anhui was soon exhausted and that foreign friends would rather have videocassettes or pictorials than other gifts. The two press conferences held by the mission in the United States and Canada were well attended by reporters and lengthy reports were published in the local press. Many requests were made by foreign businessmen for discussions with the mission. One project was discussed at the initiative of foreigners. Late at night on the eve of the mission's departure, an arrangement was made by many foreign officials and businessmen with the mission to come to Anhui for investigation and discussion.

According to Wang Yuzhao, agreement on a number of projects was reached with consideration being given to the natural resources and the existing economic capability of Anhui. For instance, Anhui produces a large number of ducks producing eiderdown of good quality. Under the terms of the project concluded with foreign businessmen for the processing of bird feathers, 5 million ducks yielding 500,000 jin of down are to be produced annually upon the completion of the installation of the necessary facilities, and the product is to be processed and made into 50,000 eiderdown dresses for export. The project for the joint production of PVC wallpaper was also concluded with a Canadian company with consideration being given to the abundant plant fiber resources of Anhui. He further pointed out that he had seen with his own eyes the size of the foreign market, that most of the goods sold in the United States and Canada are imported from abroad, that many of the products can be produced in China and that all we have to do to gain entry into the market is to improve the quality, design, variety and packaging of our products. Our purpose in importing capital, technology, and management methods from abroad, he said, is to increase our capability for earning foreign exchange by exporting our products, to put larger amounts of goods produced in Anhui in the international market and to contribute to the prosperity of the open-type economic region in Shanghai.

Wang Yuzhao pointed out that the success of the trip to the United States may be attributed mainly to the open door policy adopted by the CPC Central Committee to create for China a favorable objective environment. He said that the deepest impression he received during the trip was the favorable reaction to our open door policy. Reaction to the recent National CPC Congress was particularly favorable abroad. In the words of an overseas



Chinese in San Francisco, the personnel changes made during the congress have given people greater confidence in the continuity of the policy of the CPC and the magnificent economic goal which has been set by the Seventh 5-Year Plan has heightened the enthusiasm of foreigners to engage in projects of cooperation with China. Wang Yuzhao added that he had repeatedly assured our foreign friends of our determination to abide by the instructions of our leader Deng Xiaoping "to talk less and to do more" and to elevate our friendly foreign relations to new heights and in a down-to-earth manner. Many foreign friends have expressed their desire to visit Anhui. Many of the projects which were discussed require further implementation and a great deal of work remains to be done. It is our belief that, bolstered by the sound policy of the CPC Central Committee, the favorable conditions in the international market, and the joint efforts made by the 50 million people in Anhui, the future promises well for Anhui's open door policy.

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FOREIGN TRADE AND INVESTMENT

SHANGHAI EXPANDS FOREIGN ECONOMIC, TRADE OPERATIONS

Beijing RENMIN RIBAO OVERSEAS EDITION in Chinese 9 Dec 85 p 3

[Article: "Shanghai Expands Scope of Foreign Economic and Trade Operations by Establishing Direct Contact with More Than 160 Countries and Regions"]

[Text] According to correspondent Xu Qiuliang [6079 4428 2733]. Shanghai has continued to expand the scope of its foreign economic and trade operations, to establish increasingly close contacts with the international market and to develop the integrated type of economy both internally and externally since the adoption of the open door policy by our nation. During the period of the Sixth 5-Year Plan, the external economic contacts made by Shanghai have gradually evolved from basically simple import and export trade to the development of economic and trade relations, including financial accommodation, the transfer of technologies, and economic and technical cooperation with foreign countries. Up to now, Shanghai has established direct economic and trade relations with over 160 countries and regions throughout the world.

To strengthen its economic and technical cooperation with the world, Shanghai must come to know the world and the world must come to know Shanghai. During the Sixth 5-Year Plan period, Shanghai has established frequent contacts with economic, industrial, financial, legal, and academic circles in foreign countries with a view to engaging in projects of cooperation with them on a wider scope. To that end, such large-scale conferences as the "Sino-Japanese Economic Symposium on Shanghai in the 21st Century" and the "Sino-Australian Symposium on Economic and Trade Laws" were held at different times during the year.

In order to gain a better understanding of the international market and to keep itself informed of its situation, Shanghai has also organized exhibitions of products from certain countries and regions. According to incomplete statistics, Shanghai has, during the last 3 years of the Sixth 5-Year Plan period alone, come to increase its knowledge of the international market by organizing 33 exhibitions of products from foreign countries involving textile machinery, the rubber and plastics industry, medical appliances, the automobile industry, metallurgy, the chemical industry, electronic semiconductors, and energy-saving instruments and meters. In addition, Shanghai has, during the

Sixth 5-Year Plan period, participated in the annual spring and autumn trade fairs held in Guangzhou and organized at different times exhibitions of Shanghai's products in Shanghai and Hong Kong. These exhibitions have yielded favorable results and helped to increase the sale of products from Shanghai.

With the further implementation of the open door policy, Shanghai has continued to expand its foreign economic and trade operations. It has sent out several hundred economic and trade missions numbering tens of thousands of persons. Up to now, Shanghai has established nearly 10 economic and trade missions in the United states, Japan, Hong Kong, Panama and the FRG. The various countries and regions have established over 200 banks and firms in Shanghai.

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FOREIGN TRADE AND INVESTMENT

TIANJIN MAKES NEW GAINS BY ADOPTING OPEN DOOR POLICY

Tianjin TIANJIN RIBAO in Chinese 9 Nov 35 p 1

[Article by Liu Fengxiang [0491 7685 5046] and Ji Xipu [0370 1585 2613]]

[Text] Li Lanqing [2621 1526 3237], deputy mayor, stated at a public lecture on the foreign economic and foreign relations situation in Tianjin yesterday that as a result of adopting the policy of further opening up to the outside world, the city has achieved gratifying results in making use of foreign capital in importing technologies, increasing the amount of exports, concluding labor contracts and engaging in construction projects in the areas open for development. By the end of October, it had fulfilled 87 percent of its export quota for the entire year. It is expected to exceed the export quota set for it by the state.

Tianjin has made rapid progress in using foreign capital to establish joint enterprises. By the end of October, 140 contracts had been signed and 50 projects had been completed and put into operation, 42 between January and October of this year. The products of some of the joint enterprises, such as portable bicycles, high-grade ceramic tiles, small-scale electronic programmable telephone switchboards, large construction tires, dry-chemical fire extinguishers, and single cylinder automatic washing machines have filled a gap which had previously existed. Among such products, large construction tires had had to be imported for a long time. After the joint enterprises went into production, they have not only satisfied domestic needs but also sold 60 percent of their products in the international market to increase their foreign exchange earnings.

In addition, a good start has been made in construction projects in the development zone. Several factories have been built on what used to be wasteland and salt flats. Contracts for construction work and labor cooperation projects signed with foreigners are being developed to cover various trades and businesses, different types of production, and different functions.

From January to October of this year, the number of labor contracts signed with foreign firms increased more than fourfold compared to the same period last year. Over 770 laborers and technicians have been sent to foreign countries. Seamen from Tianjin has been assigned to eight foreign freighters. Progress has also been made in the establishment of joint industrial enterprises abroad.

With a view to speeding up the pace of technical reform and progress in industries, over 400 contracts amounting to over \$300 million were signed with foreign countries last year; 102 of the projects, which went into production the same year, were instrumental in increasing the value of production by over 320 million yuan, or one-fourth of the newly added production value of the entire city. Another 186 projects will also be inspected and put into operation during the year. The import of these projects will enable the 26 key trades and industries in the city to achieve the international technical standard of the late 1970's and 1980's and to produce a range of hot-selling goods to increase the city's export earnings.

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FOREIGN TRADE AND INVESTMENT

OPEN DOOR POLICY BOOSTS HEILONGJIANG BORDER TRADE

Beijing RENMIN RIBAO OVERSEAS EDITION in Chinese 11 Dec 85 p 3

[Article by Zhang Chijian [1728 2170 1017]]

[Text] It is much easier to visit Heihe, the northermost city in our motherland, than ever before. It takes only 85 minutes to fly from Harbin to Heihe along the "Harbin-Heihe" air route which opened the middle of last month. Prior to its opening, it used to take over 20 hours to travel the distance by train or car.

Following an inspection trip to Harbin in August 1984, Comrade Hu Yaobang pointed out in clear-cut terms that emphasis in the work being done in the border region should be shifted to economic construction, that, as in other parts of the hinterland, an effort should be made to invigorate the local economy and that the open door policy should have as its objective "the vigorous development of the border region and the enrichment of the people." In line with this spirit, the Heilongjiang party committee and the provincial government have relaxed the policy for the border region; larger subsidies are are paid to counties which are financially unable to support themselves; industrial and commercial taxes are being reduced to a suitable extent for certain counties; the entire amount of agricultural taxes is to be retained by the counties and cities instead of being shared by the province and the region; the barren mountains, grasslands, and lakes which should be allocated to households are to be distributed to the households; under the unified planning guidance of the state, collectives and individuals should be encouraged to invest in the operation of small-scale coal and gold mines; materials necessary for productive construction projects are to be allocated on a priority bases; border trade is to be vigorously developed; and investment in construction projects in the border region is to be increased. These measures have motivated the desire of the people in the border region to develop their homeland, to promote production and to bring prosperity to the long-desolate area.

--Communication development is being stepped up. Individual and collective water and land transportation enterprises are being rapidly developed and the circulation of supplies is being speeded up.

--Mining operations run by the local people have prospered. Since the beginning of the year, over 100 small coal mines have been established by peasants in coal-rich Mishan County. The annual production of coal has climbed from

190,000 tons to 500,000 tons, so that Mishan has been turned from being a coal-importing to a coal-exporting county.

--The number of people and boats engaged in fishing in the rivers in the border counties and cities has doubled since last year. The catch in Xunke County is expected to reach 500,000 jin this year, or over twice the amount last year. The opening of rivers and lakes has also promoted the breeding of fish. In Suibin County alone, the number of specialized fishing households has increased from 38 last year to 165 this year. The water area devoted to fish breeding has increased from 1,000 to over 4,000 mu.

--The "sealing off the pass" phenomenon no longer exists. One after another, the counties and cities have sent people out and invited people in to establish economic relations with the hinterland. Up to now, Heihe Prefecture has concluded 36 agreements with various provinces and cities in the hinterland to import capital amounting to 7.28 million yuan. Half of the projects to be established this year by the city of Suifenhe are to be jointly operated with the hinterland.

--The number of township and town enterprises in 19 border counties and cities has increased from 6,200 last year to over 21,000 this year. The number of enterprises established by households and joint households has increased over fivefold since last year.

--With the increase in the number of people doing business in and visiting the border region as tourists, the tourist trade is being developed from the ground up.

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## FOREIGN TRADE AND INVESTMENT

### TAX REVENUE FROM FOREIGN TRADE DOUBLES IN SHANGHAI

Beijing RENMIN RIBAO OVERSEAS EDITION in Chinese 8 Dec 85 p 1

[Article by Li Zhiyong [2621 1807 0516]: "Shanghai's Foreign Trade Tax Revenues Double; Estimated at RMB 42 Million Yuan"]

[Text] Once the enterprises and organizations established with foreign capital have begun operation, tax revenue from foreign trade (not including customs duty) in Shanghai is expected to double this year.

According to statistics of the Shanghai Tax Bureau, tax revenue from foreign trade in Shanghai is expected to amount to 42 million yuan this year, or twice the amount for last year. The number of foreign trade taxpayers has exceeded 1,600 units, or half again more than the same period last year. The categories of taxes levied against foreign trade units include income tax for joint enterprises, income tax for foreign enterprises, the unified industrial and commercial tax, personal income tax, city real estate tax, and use tax for motor vehicles and ships.

At present, the preferential tax policy adopted by Shanghai for foreign investments include: The reduction or exemption from the payment of income taxes in the initial profitmaking period of joint enterprises; the exemption from the payment of unified industrial and commercial taxes on certain links in the import and export chain; a 20-percent income tax reduction for joint enterprises, cooperative enterprises, productive enterprises solely owned by foreigners and over 10 enterprises engaged in the manufacturing of machinery and the electronics industry established in the old city area of Shanghai. With the approval of the Ministry of Finance, a 15-percent income tax is to be levied against enterprises engaged in technically and know-how intensive projects and the prepayment of income taxes for dividends, interests, rent, and patent fees is to be reduced by 50 percent.

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FOREIGN TRADE AND INVESTMENT

EXPORT PLANS FULFILLED AHEAD OF SCHEDULE BY FUJIAN

Beijing GUOJI SHANGBAO in Chinese 25 Nov 85 p 1

[Article: "Fujian, Guangxi Fulfill Export Plans Ahead of Schedule"]

[Text] As the year comes to a close, foreign trade corporations from all over have individually sent in the good news that they have fulfilled their export plans for the entire year ahead of schedule. By 10 November, Fujian Province's foreign trade exports had increased 16.5 percent over the same period last year, and Guangxi's foreign trade exports had increased 15.97 percent.

According to reporter Lin Taigui [2651 3141 6311], by 10 November, Fujian's foreign trade exports reached \$359.5 million, fulfilling 50 days early and surpassing by 3.22 percent the responsibilities for exports and foreign exchange earnings handed down to the province by the state. This represented a 16.75 percent increase over the same period last year.

Overfulfilling annual export responsibilities ahead of schedule were the five metals, textiles, and three major types of silk cloth, which had already fulfilled their individual export responsibilities by 111 percent, 161 percent, and 142 percent respectively.

Under a number of unfavorable conditions, Fujian has worked hard to find sources of good for export. It developed cooperation between the province and foreign countries, and organized the import of a large group of raw materials that were in short supply but were necessary for the production of export commodities and export materials. By now, a portion of the province's counties and cities have already fulfilled their foreign trade procurement plans; the procurement and export volumes for major commodities such as canned mushrooms, Wulong tea, dried vegetables, rabbit fur, cloth shoes, plastic slippers and knitted and cotton textile goods all increased over the same period last year. The export volume of nonferrous metals, silicon crystals and other industrial and mining products doubled.

According to reporter Yi Ling [5030 7227], by 10 November Guangxi's foreign trade system had already overfulfilled this year's export plan handed down by the state by 1.63 percent, 50 days earlier than expected. Foreign trade earning from exports were over \$300 million, 15.97 percent greater than last

year. Import and export branches of the export commodity bases all fulfilled their annual responsibilities for exports of the five metals, chemicals, and nonferrous metals ahead of schedule. The growth of exports of each of the import and export branch corporations of Beihai Port was relatively fast, and it had already fulfilled the year's export plans distributed by the state and the autonomous region government by 12.3 and 0.8 percent respectively. Exports were 37.3 percent greater than in the same period last year.

Early in the second half of the year, in order to counter the relatively sluggish export growth of the first half of the year, Guangxi's Economic Relations and Foreign Trade Committee adopted the necessary appropriate measures, and gave full play to the state's preferential policy of giving Guangxi a higher level of retention of foreign exchange for products exported. At the same time that it handled planned domestic exports, Guangxi enthusiastically developed export agencies and other methods of exporting. Beginning in July, export growth began to speed up monthly. In conclusion this growth was the vast increase in exports in the third quarter, which enabled Guangxi to rank third in the whole nation in terms of speed fulfillment of export plans.

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FOREIGN TRADE AND INVESTMENT

BRIEFS

PRC CORN MAY ENTER EEC MARKET--This reporter has learned at the just-concluded China Trade Week of the EEC in Brussels that Chinese corn has a possibility to be marketed in the countries of the EEC. During the activities of the present China Trade Week, many foreign businessmen from Western Europe made inquiries about the market condition of Chinese corn. Shen Yu [3947 0056], deputy director of the trade bureau of Harbin Municipality told this reporter that they had not yet sufficiently appraised the possibility whether there are sales possibilities for corn in the countries of the EEC. Because the utilization ratio of corn is very low in China--only 10 to 15 percent of the corn is utilized--most of it is discarded. However, we have become aware at this Trade Week that some countries of Western Europe are carrying out comprehensive utilization of corn, that many substances can be derived from corn, and that the utilization ratio of corn can be as high as from 85 to 95 percent. This would provide corn-producing provinces of China with an opportunity to find export markets for their corn. [By reporter Hao Ping [6787 1627]] [Text] [Beijing GUOJI SHANGBAO in Chinese 23 Dec 85 p 3] 9808

UK TO BUILD 6 PROJECTS WITH SOFT LOANS--According to foreign reports, Lord Young, British secretary of state for employment, told reporters in Hong Kong on 17 December on the conclusion of his visit to China that the Chinese and British governments have basically agreed on using a soft loan of 100 million pounds sterling for 6 large projects to be carried out in China. These projects will include a coal-burning power plant, a tractor assembly plant, and four other projects for the manufacture of machinery and equipment. Lord Young furthermore stated that both parties have begun discussions regarding 20 additional projects: in the area of communications, the electrification systems for the cities of Sichuan Province; for the city of Shanghai, optical conductor equipment; and later on a large telecommunications development system to be set up in the Changjiang River delta. [Text] [Beijing GUOJI SHANGBAO in Chinese 23 Dec 85 p 1] 9808

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## LABOR AND WAGES

### TRADE UNION PARTICIPATION IN POLITICS URGED

Beijing GONGREN RIBAO in Chinese 20 Dec 85 p 1

[Editorial: "Trade Unions Should Energetically Participate in and Discuss Governmental and Political Affairs"]

[Text] With the in depth development of the reform of the economic system around cities, more and more new issues have come up before the trade union organizations calling on the trade unions at all levels to participate in the management of politics, economy, culture, and social life of the state at different strata. Recently, based on the request of the All-China Federation of Trade Unions, the CPC Central Committee and the State Council have concurred: 1. In studying and drawing up pertinent plans for economic and social development and important general and specific policies, whenever issues concerning the immediate interests of workers and staff members are involved, the CPC Central Committee, the State Council, and ministries and commissions concerned should notify the All-China Federation of Trade Unions to participate in the necessary meetings or work. 2. The trade unions should be drawn in to participate in the leading organs of various important reforms involving the interests of workers and staff members. 3. Various industrial departments and localities should absorb industrial trade unions and local trade unions to participate in work and activities in this area with reference to the above-mentioned principles. This way will open the channel a step further for trade unions at all levels to participate in and discuss government and political affairs and also add more responsibility to the trade unions in this aspect. Trade unions at all levels must never fail to live up to the expectations of the party and the state and the important tasks entrusted to the broad masses of workers and staff members and energetically and voluntarily do well in participating in and discussing government and political affairs and perform their bounden responsibility and duty to the best they can to push forward the reform and the four modernizations.

The participation in and discussion of government and political affairs by the trade unions amount to the participation by the trade union representatives and workers and staff members of the organization in the management of state and social affairs. "The people have the right to administer the affairs of the country and its economic, cultural, and social affairs through various channels and in various forms according to

provisions of the law." This is the right given to every citizen by the constitution of our country. The trade union is the broadest mass organization of the working class and the most important political and social organization in China's socialist political system. Lenin once said: "As far as its position in the proletarian political system is concerned, the trade union is--if it can be so described--standing between the party and the state political power." He thought that the trade union should be the closest and indispensable collaborator of the state political power. Without the active participation of the trade union in administering the political and economic life of the country, the proletariat will not be able to maintain its own rule. Therefore, the trade union has the responsibility and the right to directly and indirectly (namely, by organizing the masses of workers and staff members) participate in administering state and social life and the affairs of the country and society.

The participation in and discussion of government and political affairs by the trade union covers very extensive ground. Issues from political, economic, and cultural to social life, from material civilization building to spiritual civilization building and issues concerning economical and social development planning, especially issues concerning the rights and interests of workers and staff members are related to active trade union participation. However, at present, they should be carried out by centering closely around the reform of the economic system, with emphasis on the cities, and around the reform of scientific research and education. The participation in and discussion of government and political affairs by the trade union do not mean that the trade union will exercise the power and functions of state administration and the administration of economic and cultural affairs but will actively reflect the views, demands, and proposals of the masses of workers and staff members to the party and the state, put forth opinions for solving various issues and, in the course of participating in policy decisionmaking, represent the masses of workers and staff members and safeguard their legitimate rights and interests by properly expressing their legitimate aspirations and demands. The trade union must also energetically publicize among the masses the significance of implementing important policy decisions and unite the broad masses of workers and staff members to strive for their realization. It was precisely in this sense of participation in administration that Lenin referred to the trade union as "a school for learning how to take charge of the economy," "a school for learning administration," and a "reservoir" of qualified management personnel for the party and the state. Therefore, the participation in and discussion of government and political affairs by the trade union is an important right of the trade union organization and also an important duty to the state, the society, and the broad masses of workers and staff members.

Trade union participation in and discussion of government and political affairs should be carried out level by level and in multiple channels with the grassroots level as the foundation. Since the masses of workers and staff members are at the grassroots level, all our principles and policies must accept the test of actual results at the grassroots level.

How can a trade union represent the masses if it deviates from the grass-roots level and the broad masses of workers and staff members? How can it come up with good ideas and opinions? Trade unions at all levels must go deep in the masses and carry out systematic and thoroughgoing, instead of fragmentary and sloppy, investigation and focus the wisdom and correct opinion of the masses, because only by so doing can fair and feasible views be derived in the process of making policy decisions. Just as summed up by some urban federations of trade unions: that the trade union carries weight in speaking for workers and staff members is entirely attributable to investigation and study whose objective is focused entirely on solving problems. It is not sufficient to merely reflect the mass sentiment and opinions to the party and the state, the trade union must also, by means of analysis and proposals, put forth measures capable of solving problems.

Trade union cadres at all levels confronting the new situation should make an effort to improve their ability to participate in and discuss government and political affairs. Under the old management system, the trade union seldom participated in important policy decisions in enterprises and establishments relating to operations and distribution and on very seldom did it grasp the situation and participate in policy decisionmaking in the field of macroeconomical control. The present situation has urged us to give top priority to studying Marxist theory, economic theories and policies, and to strengthening macroeconomic study and striving to bring up all kinds of specialized personnel among our trade union cadres. We must study diligently, ask the experts for advice, and invite experts and the public to help and support trade union work so as to improve our ability to study theory and policies, ability to make comprehensive analyses, and the ability to obtain and handle information. Only in this way can we cope with the strenuous tasks now facing the trade unions.

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LABOR AND WAGES

IMPORTANCE OF EDUCATING TRADE UNION MEMBERS DISCUSSED

Beijing GONGREN RIBAO in Chinese 21 Nov 85 p 1

[Article by reporters Ma Shichang [7456 0013 2490] and Meng Qingyong [1322 1987 3057]: "All-China Federation of Trade Unions Urges Education Program on Situation and Policies Among Workers and Staff Members Throughout the Country To Develop the Fine Tradition of Trade Unions in Doing Mass Work"]

[Text] Trade unions at all levels should carry forward the fine tradition of the trade union organizations in doing mass work, give full play to their own characteristics and advantages, and expand education on the situation and policies in a concentrated way among the broad masses of workers and staff members throughout the country. These were the demands put forth by Luo Gan [5012 1626], vice chairman of the All-China Federation of Trade Unions, on 13 November in his closing speech at the 3d Executive Committee meeting of the 10th All-China Federation of Trade Unions.

Comrade Luo Gan pointed out in his speech that beginning next year, China will enter into a period of construction under the Seventh 5-Year Plan, in which the restructuring of the economic system around cities will be carried out step by step. The principal tasks lying ahead of the trade unions is to unite and lead the working class to strive together with the people of the whole country for successfully achieving the goal set forth in the Seventh 5-Year Plan and promoting and ensuring the overall reform of the urban economic system. Trade union organizations at all levels must first study well the documents of the National CPC Congress, clearly understand the situation, correctly comprehend the various principles and policies of the party, conscientiously publicize the guidelines of the National CPC Congress among the broad masses of workers and staff members and unify their thinking with these guidelines.

Trade union organizations should teach workers and staff members to treasure the excellent situation, resolutely safeguard the hard-won political situation of stability and unity and advance it by acting like masters of their own affairs. Trade unions at all levels should energetically create a good social environment for the reform by strengthening ideological and political work among workers and staff members.

Comrade Luo Gan said that the broad masses of workers and staff members actively support the vigorously developing reform of the economic system

which is sweeping across the country; they are looking forward and hope that the reform will be successful. However, we should also see clearly that some workers and staff members do not really understand our party's policy of "invigorating the domestic economy and opening to the outside world" and still have many vague ideas about the new situations and new problems which have cropped up in the course of the reform; at times they have even expressed doubts about certain issues. For this reason, trade union cadres at all levels should exploit the strong points of the trade unions in doing mass ideological and political work, go deep into the mass of workers and staff members and talk heart to heart with them, widely carry out propaganda and education on the situation and policies, clearly solve certain issues of actual understanding of the party's policies among the masses of workers and staff members, give them correct guidance in distinguishing the principal from the peripheral, and correctly understand and handle certain new contradictions that are bound to surface in the course of the reform so as to give full play to the enthusiasm of the broad masses of workers and staff members.

Comrade Luo Gan emphasized that while strengthening the ideological and political workers among workers and staff members, trade unions at all levels should actively take part in socialist democratic construction, push the democratic management of enterprises forward a step further to a new level, and strengthen democratic and social supervision by the masses in a practical way by mobilizing and organizing workers and staff members to participate in management and appraising cadres through democratic discussion. Unhealthy party style and social conduct still exist in some places, government organizations, enterprises, and establishments, especially certain unhealthy tendencies in the economic sphere, and these have affected the enthusiasm of workers and staff members in some ways. In bringing about a basic turn for the better of party style and social conduct, the trade union organizations must first of all take the lead in staying away from unhealthy tendencies and resolutely boycott all sorts of unhealthy tendencies by taking a clear-cut stand and performing their duties as well as possible. Trade unions at all levels must be concerned with the livelihood of the masses in real earnest, safeguard the interests of workers and staff members, expeditiously reflect the opinions and demands of the broad masses of workers and staff members to the party and government, and help departments concerned solve those reasonable and solvable specific issues. Trade union organizations, as a powerful tie of the party closely linking with the masses, should take the lead in carrying forward the fine traditions of showing concern for the people's livelihood, speak for the workers and staff members, perform more concrete good deeds for them and resolutely struggle against bureaucratic phenomena that show no concern for the weal and woe of the people and undermine the interests of the state and workers and staff members.

Comrade Luo Gan called on the trade unions to emphatically concentrate on the following work next year:

1. They should strengthen the ideological and political work of workers and staff members, carry out education on the situation and policies and



education on the situation and policies and education on the "four have" [ideals, morality, knowledge, and physical strength], develop the fine traditions of the trade union organizations in doing mass work, combine education on the situation and policies with effective mass self-education activities, such as reading activities of workers and staff members so as to further develop them in depth. The All-China Federation of Trade Unions is planning to organize forces next year to conduct a more comprehensive investigation on the contingent of workers and staff members and call a meeting on ideological and political work of workers and staff members to sum up typical cases, exchange experience, and study policies so as to advance the ideological and political work of workers and staff members in a deep and sustained way.

2. They should mobilize and organize workers and staff members throughout the country to launch a socialist labor emulation drive to be "four-haves workers and staff members, and the main force of reform and win merits in the four modernizations drive."

3. They should strengthen the study of theory and policies.

4. They should continue to strengthen the building and reform of the trade unions themselves and steadfastly see to readjusting grassroots trade union organizations and establishing "worker and staff member families."

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TAIWAN

TAIWAN TO ADOPT NEW MEASURES TO ATTRACT HONG KONG INVESTORS

HK250531 Hong Kong SOUTH CHINA MORNING POST (BUSINESS NEWS Supplement) in English 25 Feb 86 p 5

[By Paul Sham "Recently" in Taipei]

[Text] Taiwan is to step up its promotional drive in Hong Kong to bolster measures already under way to tap outflowing capital from the territory, according to a senior official of the Ministry of Economic Affairs.

The director-general of the ministry's Industrial Development and Investment Centre, John Ni, told BUSINESS NEWS a lack of interest shown by Hong Kong investors last year revealed a better understanding of Taiwan is urgently needed.

Since the 1997 deadline issue broke in mid-1984, Taipei has formulated a number of measures aimed at channelling "escape" capital from Hong Kong into Taiwan.

One of these was to set up a finance sub-committee of the cabinet's Hong Kong Committee and a Hong Kong Compatriots Service Centre under the Overseas Chinese Affairs Commission.

The goal was to strengthen economic links with the territory and develop incentives for investment such as concessions in foreign exchange remittance and taxation.

The Shanghai Commercial Bank of Hong Kong was also asked on Taiwan's behalf to handle offshore time deposits, in addition to allowing Hong Kong Chinese to open foreign currency accounts in Taiwan and invest in the stock market there.

The results, however, have been disappointing for Taipei.

Official statistics indicate investment from Hong Kong totalled US \$29 million last year, plunging by 55 percent from a year earlier.

Investment by individual overseas Chinese, as opposed to corporate entities, was down by 33 percent to \$11 million in the same period.

Although the offshore banking exercise has produced more than US \$6 billion since its introduction in mid-1984, a local banking source described assets flowing from Hong Kong as insignificant.

"The problem is most Hong Kong residents do not understand the situation in Taiwan," said Mr Ni. "Yet, compared with other Asian countries, Taiwan is in a much better position."

Besides this wide misconception of Taiwan's stability, Mr Ni said some Hong Kong industrialists also mistakenly believe the Taipei Government is only interested in attracting large-scale investment.

"It has always been the policy of the government to attract investment from Hong Kong, big or small," he said.

"In fact, Taiwan does not need much foreign capital, but it does need foreign technology, markets and management skills."

Over the past 26 years, Mr Ni said Hong Kong money has accounted for more than 25 percent of total investment in Taiwan by overseas Chinese.

Although foreign and overseas Chinese investment accounted for only about five percent of the island's total investment in that period, it was responsible for generating 25 percent of Taiwan's exports and provided 17 percent of employment opportunities.

Mr Ni declined to give details of new measures in the pipeline to lure Hong Kong investors, but said more economic delegations will be sent to the territory this year and more industrialists from Hong Kong will be invited to Taiwan.

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TAIWAN

TAIWAN EXPORTS UP, IMPORTS DOWN IN 1985

OW080423 Taipei CNA in English 0247 GMT 8 Feb 86

[Text] Taipei, 7 Feb (CNA) -- The Republic of China's [ROC] two-way trade amounted to over U.S. \$50.8 billion in 1985, showing a negative growth of three percent in comparison with that recorded in 1984, according to a recent report by the Directorate General of Budget, Accounting and Statistics [DGBAS].

Of the total, exports stood at over U.S. \$30.7 billion, representing a slight growth of 0.9 percent over that of 1984 while imports totalled U.S. \$20.1 billion, down 8.4 percent from the 1984 level, DGBAS said. The ROC enjoyed a record high of trade surplus of over U.S. \$10.6 billion in 1985, DGBAS added.

The United States remained the largest market for the ROC's exported goods by absorbing over 48 percent or nearly U.S. \$14.8 billion worth of ROC-MADE products in 1985. Japan was the next by importing over U.S. \$3.4 billion or more than 11 percent of the ROC-EXPORTED goods last year, followed by Hong Kong, purchasing U.S. \$2.54 billion or 8.3 percent of the ROC exports, DGBAS said.

Japan was the largest supplier to this nation by selling the ROC more than U.S. \$5.5 billion worth of goods or 27.6 percent of this nation's total imports in 1985, followed by the United States, exporting U.S. \$4.7 billion worth of goods here and accounting for 23.6 percent of the ROC's imports in 1985, and Saudi Arabia, supplying the ROC U.S. \$1.36 billion or 6.8 percent of its imports, DGBAS said.

Exports of manufactured goods, such as electronic products, garments and gauze, shoes and toys amounted to U.S. \$26.4 billion in 1985, up 0.8 percent, while exports of raw materials and fishery products stood at over U.S. \$400 million, down 3 percent from last year.

Imports of crude oil and raw materials, which reached about U.S. \$5.1 billion, took the lion's share of the ROC's total imports in 1985, representing a decrease of 12.5 percent from that in 1984, followed by manufactured goods such as electronics, chemicals, mechanical and metal products, amounting to nearly U.S. \$12.8 billion, a fall of 8.1 percent from 1984's level, DGBAS said.

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TAIWAN

#### BRIEFS

TOYOTA INVESTMENT APPROVED--Taipei, 22 Feb (CNA)--The economics ministry said Saturday that the government's approval of Toyota Motor Company's investment in the Republic of China is in line with its auto industry development project, and is expected to enhance the competitiveness of ROC's auto industry. Vice Economics Minister Li Mo said he believes Toyota's investment will help upgrade the quality of locally-made auto parts and provide domestic consumers with cheaper and better sedans once Toyota begins production here. He denied the government is giving Toyota any preferential treatment, especially regarding its export ratio, saying that Toyota's investment project is different from those proposed by Ford or other companies, and therefore, it should not be considered by the same standards. [Words Indistinct] production of sixty thousand in Taiwan will bring impact to the domestic auto market and stimulate domestic auto makers to improve the quality of their products, Lee said. Meanwhile a ranking official with the ministry disclosed that a Toyota representative [words indistinct] has already returned to Japan for discussion with his superiors the VOEA's conditions for the approval. He (?said Toyota) is expected to give a final reply if it will accept those conditions some time next week. [Text] [Taipei CNA in English 1425 GMT 22 Feb 86 OW]

FOREIGN EXCHANGE RESERVES--Taipei, 5 Feb (CNA)--Chang Chi-cheng, governor of the Central Bank of China (CBC), recently confirmed that the nation's foreign exchange [Forex] reserves have exceeded U.S. dollar 23 billion. Chang said, according to CBC statistics, the Republic of China's Forex reserves first topped U.S. dollar 10 billion in June 1983, then climbed to U.S. dollar 22.2 billion by the end of 1985. During the first month of this year, Forex reserves increased by U.S. dollar 0.8 billion, finally topping the U.S. dollar 23 billion mark. [Text] [Taipei CNA in English 0343 GMT 5 Feb 86 OW]

TRADE DOWN--Seoul, 5 Feb (CNA)--Bilateral trade between the Republic of China [ROC] and the Republic of Korea totalled U.S. dollar 440.2 million in 1985, down 13.9 percent from the 1984 figure, an economics official at the Chinese embassy said Wednesday. The ROC exports to Korea last year, amounting to U.S. dollar 253.6 million, was an increase of 0.8 percent over a year earlier, while its imports from Korea, totalling 186.6 million, was a drastic 23.5 percent drop from the U.S. dollar 243.9 million in 1984, according to the official. Based on these statistics, the ROC enjoyed a surplus of U.S.

dollar 67 million in trade with the ROK last year. The official attributed the decline in ROC imports from Korea to the decrease of its purchase of Korean steel billets, a major item which ROC manufacturers can now produce in big enough quantities to export to the ROK. [sentence as received] On the prospects of the two-way trade, the official said as Korea aims to cut its imports while expanding exports, there will be some difficulties to enlarge the ROC's trade with Korea this year. [Text] [Taipei CNA in English 0255 GMT 6 Feb 86 OW]

DRAFTING PATENT PROTECTION AGREEMENT--Taipei, 5 Feb (CNA)--The Ministry of Economic Affairs (MOEA) is drawing up an "ROC-U.S. [Republic of China-U.S.] bilateral agreement on industrial property protection," which stipulates that citizens of both countries will soon be entitled to the mutually recognized and enforced protection of industrial property, including patents and trademarks. The agreement is being drafted by the National Bureau of Standards and is expected to be signed by representatives of the ROC and the American Institute in Taiwan this June. Major points in the agreement will include: --Protection will cover inventions, new styles, new structures, trademarks, company names, the labeling of original manufacturing locations, and protection against unfair trade practices. --Industrial property protection will extend not only to manufacturing and business sectors, but also to agricultural and mining sectors. --Patent protection will cover all kinds of industrial patents. --ROC and U.S. nationals will be entitled to the benefits of industrial property protection and fair trade in both countries. [Text] [Taipei CNA in English 0331 GMT 5 Feb 86 OW]

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HONG KONG

HONG KONG BANKING'S FIRST YEAR OF TRANSITION

Hong Kong JINGJI DAOBAO [ECONOMIC REPORTER] in Chinese No 3, 13 Jan 86 pp 5-6

[Unattributed article: "First Year of Transition for Hong Kong's Economy"; first paragraph source-supplied introduction]

[Excerpt] The year 1985 was the first year of a transition of historical significance for Hong Kong. During this year, Hong Kong's economy was still able to show a certain measure of progress and improvement, despite the slowdown in the peripheral economies and the trend of a rising trade protectionism. To provide our readers with a clearer picture of the performance of Hong Kong's main branches of commerce during the past year and of the developmental trend expected in the new year, the special editorial of this issue will first present an analysis of conditions in the banking business, import-export trade, industry, real estate business and in the stock market, to be followed in the next issue by a continued inquiry into the trends in the gold market, foreign exchange market, tourism, and in the air transport business.

The Banking Business:

Development Amidst Turbulence; Optimistic Prospects for the New Year

Banking in Hong Kong during 1985 was a mixture of glory and ignominy. The Overseas Trust Bank [OTB] ran into financial trouble and was taken over by the Hong Kong Government. Its subsidiary, the Industrial and Commercial Bank, was also forced to undergo reorganization. These events had an adverse effect on the confidence of the public, exerted pressure on some of the smaller Chinese banks, but also accelerated the progress in the reform of Hong Kong's banking trade. On the other hand, deposits continued to increase during the year, funds were ample, and interest rates low. The clarification of Hong Kong's future revived the real estate market and led to brisk activity by banks in their extending credits for high-rise constructions. In addition, foreign financial organizations arrived in a steady stream, injecting foreign capital into the Hong Kong economy, a phenomenon that was also characteristic for last year.



## The OTB Crisis and Its Aftermath

On 6 June of 1985, the OTB, the third largest of Hong Kong's Chinese banks, ran into financial trouble and found itself unable to continue business. The Hong Kong Government, thereupon, drew on foreign exchange funds and took over control of the bank. The largest shareholder of the OTB, the Industrial and Commercial Bank, also became implicated and had to be reorganized. Available data reveal that up to the end of June of 1985, the OTB was in the red to the amount of HK\$3 billion, and that the deficit of the Industrial and Commercial Bank also reached as high as HK\$350 million.

The side-effects of the OTB incident radiated like waves among Chinese banking circles. For instance, the Ka Wah Bank got into a financial squeeze toward the end of June, when the Hongkong and Shanghai Banking Corporation and the Bank of China announced their joint assistance and provided temporary relief. The consortium was later joined by the China International Trust and Investment Corporation, which bought up 90 percent of the bank's shares. In early 1985, furthermore, the Arab Banking Corporation appeared and brought in \$732 million of Middle-Eastern money. In the middle of the year, the China Steam Navigation Company bought 1 percent of the shares in the Far East Bank, investing the huge amount of \$100 million. Toward the end of the year, the Hang Seng Bank poured \$176 million into the Wing On Bank, thereby gaining control of the latter to the extent of 51 percent, following an increase in its share capital. It is therefore safe to say that the turbulent activities and reorganizations among the smaller Chinese banks is also a conspicuous feature of banking during 1985.

## Low Interest Rates and Changes in the Deposit and Loan Business

As we entered 1985, deposits in our local Hong Kong banks continued to increase, and this at an accelerated pace. According to Hong Kong government statistics, the total amount of deposits at the end of November 1985 was \$439,569 million, an increase of 19 percent over the figure at the end of the preceding year. The rate of increase in the second half of the year was faster than in the first half of the year. Computed for the first half of the year, the rate of increase was 9.5 percent, while it was already above 9.5 percent in the 5 months of the second half of the year. At the same time, foreign currency deposits also increased distinctly; up to the end of November of 1985, the Hong Kong dollar-denominated deposits increased 8.5 percent, and the foreign currency deposits increased 31.2 percent. This is also different from 1984, when deposits in Hong Kong currency were higher than deposits in foreign currencies.

In 1985, there was a slowdown in economic growth in the United States, Hong Kong's main export market, coupled with protectionist pressures, which also constituted even greater obstacles for Hong Kong exports. For this reason, visible trade credits by banks declined 7.8 percent during the first 11 months of 1985. There was a constant decline from May to October; only in November did this tendency stop and turn into an upward trend.

Although Hong Kong's foreign trade suffered a setback, real estate business alone was a flourishing branch of business during 1985. According to Hong

Kong government statistics, bank loans for high rise constructions reached \$35,686 million at the end of September of 1985, an increase of 21.5 percent compared with the figure at the end of the preceding year. Bank credits and advances, therefore, could still show an increase of 5.9 percent at the end of November, with the total figure standing at \$446,165 million.

The less than ideal performance of the export trade resulted in an only weak inclination for industrial and commercial investments, leaving only a shrunken outlet for the surplus funds available in the banks, and leading, accordingly, to decline after decline in the interest rates, prime interest rates declining from 10.5 percent at the beginning of the year to 6 percent on 18 July; from 2 September to the end of the year, the rate always remained under the 7 percent level. The long-lasting low interest rates for Hong Kong dollar-denominated deposits was also the main reason for the steep increase in foreign currency deposits.

Domestic competition within the banking trade became severe, which was another conspicuous feature of 1985. The fight started with home mortgage loans. Later on, banks would also give loans by way of personal overdrafts, also compete for the exclusive sales rights for commercial paper. All these activities added to the strife-laden atmosphere. In the course of the business competition, the unfavorable situation of the smaller Chinese banks fully revealed itself, and the position of the deposit-taking companies also became much weakened. According to statistics, fixed deposits received by deposit-taking companies at the end of November amounted to \$80,015 million, an increase of 10.6 percent compared with the amount at the end of the preceding year, but far behind the 21.4 percent increase at the banks during the same period. As to loans granted, loans received from deposit-taking companies up to the end of September amounted to \$128,127 million, a decline of 5 percent compared with the end of the preceding year, while the banks had an increase of 7.3 percent. Here, the loans given by deposit-taking companies declined all along since April 1985, which reflects the fact that some of the deposit-taking companies closed down of their own accord due to business failures, or had their licenses cancelled by the banking supervisory office.

The number of deposit-taking companies declined from 343 at the end of 1984 to 313 at the end of 1985. In this figure two new companies are included, while the number of licensed deposit-taking companies declined by 32 companies.

#### Accelerated Reform of the Banking Trade

Repeated crises in the banking trade spurred on the reform of the banking trade. Beginning of 1985, the banking supervisory office of the Hong Kong Government submitted five proposals of revised banking regulations. Later, toward the end of November, the Hong Kong Government basically finalized the new banking reform proposals. The main points included in these proposals are the supervision and control powers over the banking trade, the required ratio of assets, and the required ratio of assets to risks. They combine into one set the current sets of regulations, one for the banks and one for the deposit-taking companies, also establish the responsibilities of auditors, etc.

During the discussion of the banking reform proposals, the Hong Kong Chinese banks, the mainland Chinese banks, and the foreign banks raised several questions, such as proposals for "discount windows," a "Central Bank," and a "deposit insurance plan," as well as for certain revisions regarding the three-level financial system for certain foreign financial organization in Hong Kong engaged in offshore banking business. These discussions will have a certain impact on the development of banking in Hong Kong.

#### Capital Market Gradually Attaining Maturity

Rapid progress was made in 1985 in rendering the Hong Kong capital market into a securities-minded market. According to Hong Kong government statistics, assets held by the banks in the form of deposit certificates, commercial paper, treasury bonds and securities as well as stocks amounted to \$131,454 million, while the value of this type of assets at the end of 1984 was \$94,289 million, thus having increased 39.4 percent. In addition, there have been extremely large increases in deposit certificates at fixed and floating interest rates and in the issue of commercial papers. According to incomplete statistics, financial organs have issued during 1985 Hong Kong currency deposit certificates at fixed interest rates amounting to \$5,385 million, and at floating interest rates to the amount of \$1,300 million, while the commercial notes in Hong Kong currency issued by large groups constitute assets amounting to \$9,500 million. The issue of retrievable deposit certificates has therefore increased 26.8 percent up to the end of September of 1985 compared with the end of the preceding year, i.e. at a much higher rate than the 18.8 percent during the same period of 1984.

Borrowers in good standing could obtain cheaper capital by issuing commercial notes than by borrowing from the banks, a fact which, of course, weakened the traditional banking business and was one of the reasons for the limited increase in bank loans during 1985. As a consequence, bank income from loan interest declined, and income from service-charge type commissions by those dealing in commercial notes increased.

#### New Foreign Financial Organizations Arriving Without Letup

Since the beginning of 1985, there was no slowdown in the trend of new foreign financial organizations coming to Hong Kong to start operations. According to the figures of the banking supervisory office, the total number of licensed banks last year was 143, an increase of 3 compared with 1984, which had come from Japan, Spain, and France. However, the Hong Kong offices of foreign banks had increased 18 percent, from 111 at the end of 1984 to 131.

The brisk activity of foreign financial organizations in Hong Kong indicates, on the one hand, that Hong Kong is still considered the ideal location for all Southeast Asian business, and indicates, on the other hand, that following the unwavering implementation and continuation of China's open door policy, Hong Kong will play an even more important role in the future as the gateway to China. These facts will also contribute to the future development of Hong Kong's banking trade.

## An Optimistic Outlook for 1986

We may well be optimistic regarding banking business in 1986.

First, Hong Kong can indeed count on some improvements in its chances for economic growth. The U.S. economy is not yet showing any signs of a recession, and a low inflation rate and low interest rates seem ensured. Europe's economic growth is appraised as progressing even faster than that of the United State. China is maintaining the open door policy and its large-scale construction. All these factors seem to ensure a certain development for Hong Kong's exports and entrepot trade, while several large-scale construction projects at Hong Kong itself will also be launched this year.

These will also stimulate internal consumption and investments, and will guarantee the further development of related banking business.

The banking trade has, moreover, undergone some thorough readjustments in the last few years. Taking advantage of the revival of the real estate business and the brisk share market in 1985, many banks have skimmed off good profits, readjusted their business operations, and thereby gained excellent foundations for profitable developments in 1986. The abundance of funds provides the banks with further opportunity to operate to their fullest capacity. There is, furthermore, the chance that interest rates will go up this year, and this will result in higher profits for the banks.

Of course, conspicuous problems will still remain for the banking trade, for instance, the new regulations for the supervision and control of the banking trade that will soon be gradually enforced and the trend of more local Chinese banks starting operations, etc.

Moreover, the question of whether the opening of the second market in Hong Kong will mean a breakthrough success is also something attracting attention. Following the increased security-mindedness of the Hong Kong capital market, the development of the second market has become a matter of ever growing urgency. The fluidity of the bank assets, the perfection of the Hong Kong financial system, or even more so the improved quality of Hong Kong as a financial center, all depend on the opening of the second market and its development. It is quite possible that under the impetus of the growing security-mindedness of the capital market, the "discount window" will no more merely be a proposal but will become a program of real substance.

If the banking trade will be able to strengthen its managerial and operational capabilities in the course of the reform of the financial system, and effect internal reorganization and a judicious expansion of the business operations of large and small banks, it will then be possible, with comparatively favorable external conditions, that the banking trade will achieve better results in 1986 than what was achieved in 1985.

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